

POSTAL RATE COMMISSION

In the Matter of

EXPERIMENTAL PRESORTED
PRIORITY MAIL RATE CATEGORIES

Docket No. MC2001-1

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Experimental Presorted Priority Mail

Docket No. MC2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

United States Postal Service

Institutional

Office of the Consumer Advocate

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OCA/USPS-T2-2 redirected to USPS

Thomas Scherer (USPS-T-1)

Newspaper Association of America

NAA/USPS-T1-1-5
POIR No. 1, Questions 2 and 3

Office of the Consumer Advocate

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United Parcel Service

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Newspaper Association of America

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Office of the Consumer Advocate

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United Parcel Service

OCA/USPS-T2-1, 3-4, 6

Party**Robert Kalenka (USPS-T-3)**

Office of the Consumer Advocate

United Parcel Service

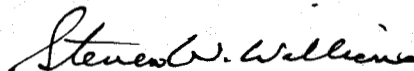
Interrogatories

OCA/USPS-T3-1

OCA/USPS-T1-11b redirected to T3

OCA/USPS-T3-4, 6

Respectfully submitted,

Steven W. Williams
Acting Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

InterrogatoryDesignating Parties**United States Postal Service****Institutional**

OCA/USPS-T1-20 redirected to USPS	OCA
OCA/USPS-T1-25 redirected to USPS	OCA
OCA/USPS-T2-2 redirected to USPS	OCA

Thomas Scherer (USPS-T-1)

APMU/USPS-T1-1	OCA
APMU/USPS-T1-2	OCA
APMU/USPS-T1-3	OCA
APMU/USPS-T1-4	OCA
APMU/USPS-T1-5	OCA
APMU/USPS-T1-6	OCA
APMU/USPS-T1-7	OCA
APMU/USPS-T1-8	OCA
NAA/USPS-T1-1	NAA
NAA/USPS-T1-2	NAA
NAA/USPS-T1-3	NAA
NAA/USPS-T1-4	NAA
NAA/USPS-T1-5	NAA
OCA/USPS-T1-1	UPS
OCA/USPS-T1-2	UPS
OCA/USPS-T1-3	OCA
OCA/USPS-T1-4	UPS
OCA/USPS-T1-5	UPS
OCA/USPS-T1-6	UPS
OCA/USPS-T1-7	UPS
OCA/USPS-T1-8	UPS
OCA/USPS-T1-9	UPS
OCA/USPS-T1-10	UPS
OCA/USPS-T1-11a	UPS
OCA/USPS-T1-11c	UPS
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Interrogatory

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 OCA/USPS-T1-22
 OCA/USPS-T1-23
 OCA/USPS-T1-24
 POIR No. 1, Question 1
 POIR No. 1, Questions 2 and 3

Designating Parties

UPS
 UPS
 UPS
 UPS
 UPS
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 UPS
 UPS
 UPS
 UPS
 OCA
 NAA

Jonathan Levine (USPS-T-2)

APMU/USPS-T2-1
 NAA/USPS-T2-1
 NAA/USPS-T2-2
 NAA/USPS-T2-3
 NAA/USPS-T2-4
 NAA/USPS-T2-5
 NAA/USPS-T1-6 redirected to T2
 NAA/USPS-T1-7 redirected to T2
 NAA/USPS-T1-8 redirected to T2
 OCA/USPS-T2-1
 OCA/USPS-T2-3
 OCA/USPS-T2-4
 OCA/USPS-T2-5
 OCA/USPS-T2-6

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Robert Kalenka (USPS-T-3)

OCA/USPS-T3-1
 OCA/USPS-T3-4
 OCA/USPS-T3-6
 OCA/USPS-T1-11b redirected to T3

OCA
 UPS
 UPS
 OCA

United States Postal Service

Institutional

OCA/USPS-T1-20. Please refer to the Attachment to OCA/USPS-T3-5, which is a copy of an envelope from Firststar Trust Services.

- a. The upper right-hand corner of the envelop displays a presort First-Class permit and a printed Priority Mail "label." What does the Postal Service call the printed Priority Mail "label?" What is the effect on the Postal Service of displaying the Priority Mail label and the presort First-Class permit on the same mail piece? Please explain.
- b. Assume the contents and envelop from Firststar Trust Services weigh 12.2 ounces. Please explain how this mail piece would be classified in the IOCS and the RPW.

RESPONSE:

- a. This mail piece does not appear to have been prepared in accordance with the regulations for rate markings in Domestic Mail Manual M012 and E120. A mail piece must be marked to show the class of service and/or rate paid. The "Priority Mail" Label 107 rate marking to the left of the indicia and the "PRSRT FIRST-CLASS" rate marking in the indicia conflict with each other. (Note: the printed label is smaller than a USPS-issued Label 107, while the First-Class permit imprint appears to be approximately the correct size; therefore, it can only be surmised that a Label 107 was scanned and copied to the mail piece on a smaller scale.) Normally, at the time of mailing, the acceptance unit would refuse to accept such a mail piece because it bears a dual rate marking. The mailer would be asked to obliterate the incorrect rate marking, so that only the correct rate marking appears. If, however, such a piece is found in the mail stream, the finder should call the mailing office (as indicated on the indicia) to determine the correct postage rate and mark the piece accordingly.

(Response to OCA/USPS-T1-20 continued)

- b. DMM 56, Section P040.3.0 (Indicia Content) states that a permit imprint indicia on First-Class Mail or Priority Mail must show "First-Class Mail" or "Priority Mail" (or "Priority") as applicable. The example cited has "PRSRT FIRST-CLASS" displayed in the indicia. Therefore, RPW data collectors would record this mail piece as First-Class Presorted Mail (Private). IOCS data collectors would record this mail piece as First-Class Mail with a marking of PRSRT.



PO BOX 2077
MILWAUKEE WI 53201 2077

ADDRESS SERVICE REQUESTED



PSRM
CINCINNATI OHIC
PERMIT NO 8093

Attachment to OCA/USPS-T3-5

PROXY MATERIAL ENCLOSED

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-25.

Please refer to your testimony at page 2, lines 18-20, and page 3, line 1.

- a. Please confirm that some Priority Mail pieces are "letters" as that term is defined at 39 C.F.R. §310.1(a). If you do not confirm, please explain.
- b. Please confirm that the discounts proposed in this docket will be available for "letters" and non-"letters." If you do not confirm, please explain.
- c. Please confirm that an "extremely urgent letter" may be carried outside the mail without paying postage under certain circumstances described at 39 C.F.R. §320.6(a)-(c). If you do not confirm, please explain.
- d. Please confirm that according to 39 C.F.R. §320.6(a)-(c), a one-pound "letter" delivered outside the mail in more than 24 hours would not be considered extremely urgent unless the carrier charged at least \$7.00. If you do not confirm, please explain.
- e. Please explain how a discount from a \$3.50 rate would discourage mailers of one-pound pieces from using a different carrier and paying \$7.00 per piece.
- f. Please confirm that the Postal Service could eliminate competition for Priority Mail "letters" by amending 39 C.F.R. §320.6(a)-(c). If you do not confirm, please explain.
- g. What proportion of ADP's Priority Mail volume consists of "letters"?
- h. Please confirm that ADP would have to pay at least \$7.00 per piece to send its Priority Mail "letters" outside the mail. If you do not confirm, please explain.

RESPONSE:

The relationship between these questions and the cited testimony is not apparent.

- a. Confirmed.
- b. As with current rates, the proposed rates will be available to all matter mailed as Priority Mail.
- c. The Postal Service has established a suspension from the general postage payment requirements for privately carried letters in the Private Express Statutes for "extremely urgent" letters. See 39 C.F.R. section 320.6.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE

- d. Confirmed, that under section 320.6, a privately carried one-pound letter would be presumed "extremely urgent" if the price paid for its carriage was at least twice the applicable \$3.50 Priority Mail postage.
- e. The question refers to mail "pieces," not letters. The terms of section 320.6 only affect privately carried letters, not the relatively infinite variety of other one-pound matter that a sender might pay a Priority Mail competitor to deliver. Thus, for the bulk mailers of the infinite variety of one-pound non-letter matter (the private carriage of which is not subject to section 320.6), it seems that a discounted Priority Mail presort rate could be viewed as more attractive than the current Priority Mail \$3.50 rate or the rates that a competitor would charge to deliver the same matter. There are, of course, considerations other than cost that affect choice of delivery service. As for whether Priority Mail presort discounts will affect whether bulk Priority Mail letter senders opt for the services of Priority Mail competitors (whose prices for letter carriage are affected by section 320.6), the answer would seem to depend on the degree to which considerations other than price come into play.
- f. Suspensions of the Private Express are enacted on the basis of considerations of the public interest. See 39 U.S.C. section 601(b). The Postal Service could only "eliminate competition for Priority Mail 'letters'" if it could justify that doing so was in the public interest.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE

- g. The Postal Service has not conducted an inspection or legal analysis of ADP's mail that would permit a precise quantification of the degree to which such matter constitutes "letters," as defined by 39 C.F.R. section 310.1(a). First-Class Mail and Priority Mail are sealed against inspection. The Postal Service is otherwise aware that some of the matter processed by ADP falls within that definition.
- h. Confirmed, assuming the private carriage otherwise could not qualify for any of the Private Express exceptions or the other suspensions.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-2.

Please refer to your testimony [USPS-T-2] at page 3, lines 15-16, which identifies the Linear Induction Parcel Sorter (LIPS) as one of four operations in MODS specific to Priority Mail distribution.

- a. Please confirm that the Linear Induction Parcel Sorter is a mail processing operation, or part thereof, in the Management Operating Data System. If you do not confirm, please explain.
- b. Please confirm that the Postal Service provided information, regressions, and analyses of LIPS as part of, or in conjunction with, the testimonies of witnesses Bradley and Bozzo in Docket Nos. R97-1 and R2000-1.
 - i. If you do not confirm, please explain the relevance of the analysis of LIPS in this proceeding, given its absence in Docket Nos. R97-1 and R2000-1; and
 - ii. If you do confirm, please provide citations to the testimony, exhibits and library references in the referenced dockets, or copies of the information used in those dockets, relating to LIPS.

RESPONSE:

- a. Confirmed that six MODS three-digit operation numbers are defined for LIPS operations. The following table provides the LIPS operation numbers and brief descriptions:

Operation #	Description
254	LIPS OUTGOING PREF
255	LIPS OUTGOING STANDARD
256	LIPS INCOMING PREF
257	LIPS INCOMING STANDARD
258	LIPS-PRIORITY, OUTGOING
259	LIPS-PRIORITY, INCOMING

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

(RESPONSE to OCA/USPS-T2-2 continued)

- b. Partly confirmed. The LIPS operation numbers listed in the response to part (a) of this interrogatory were defined in FY 1997. Therefore, the operation numbers were not defined during the period, ending in AP 13 of FY 1996, covered by Dr. Bradley's mail processing data set in Docket No. R97-1 and Dr. Bradley conducted no analysis pertaining to LIPS operations in that proceeding. In Docket No. R2000-1, the MODS cost pools for Small Parcel and Bundle Sorter (SPBS) operations included the LIPS operation numbers. Consistent with the MODS operation and cost pool definitions, the SPBS operation groups used in Dr. Bozzo's analysis included the LIPS operations for the FY 1997 and FY 1998 observations. Dr. Bozzo provided and analyzed LIPS data to the extent it was included in the SPBS operation groups.
- i. Not applicable.
 - ii. Please see Docket No. R2000-1, USPS-T-10 (Kingsley) at 20 (description of LIPS equipment); USPS-LR-I-106 at I-17 (assignment of LIPS operation codes to cost pools); USPS-T-15 (Bozzo) at 118, 120 (econometric specification and main results for SPBS operation group); USPS-LR-I-107 at 7-8 (description of TSP program for SPBS operation group).

United States Postal Service

**Thomas Scherer
(USPS-T-1)**

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

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APMU/USPS-T1-1.

- a. Please confirm, based on your cost estimates, that for each tier of the proposed presort discounts (i.e., the ADC discount of 12 cents, the 3-digit discount of 16 cents, and the 5-digit discount of 25 cents), the pass-through would be 60 percent of estimated cost savings.
- b. If you cannot confirm, or if your answer is anything other than an unqualified affirmative, please explain in detail.

RESPONSE:

a. Confirmed, at each presort tier, the pass-through is *approximately* 60% of estimated cost savings.

b. The 60% pass-throughs are *approximate* due to rounding. Applying a 60% pass-through to the estimated cost savings at page 7 of Witness Levine's testimony, 11.6 cents for an ADC presort, 15.7 cents for a 3-digit presort, and 25.2 cents for a 5-digit presort were obtained. Consistent with base rates in the Priority Mail rate schedule, these discounts were rounded to the nearest cent, resulting in 12 cents for an ADC presort, 16 cents for a 3-digit presort, and 25 cents for a 5-digit presort. When these proposed discount levels are divided by Witness Levine's estimated cost savings, implied pass-throughs of 62.2% for an ADC presort, 61.3% for a 3-digit presort, and 59.5% for a 5-digit presort – all *approximately* equal to 60% – result.

APMU/USPS-T1-2.

- a. At pages 8-10 of your testimony, you mention certain reasons for the conservative pass-through of cost savings your employ, but it is not clear why the particular percentage figure (i.e., 60 percent) was chosen. Please explain in detail why the Postal Service is proposing such a low percentage pass-through of the cost savings that would be realized by the presort preparations giving rise to the various discounts, including any calculations involved in making the pass-through recommendation.
- b. Did you consider any factors or contingencies that might cause the estimated cost savings to be even greater than projected? If so, please explain.

RESPONSE:

a. In proposing the 60% cost pass-through, I first evaluated the risk of not fully achieving the cost savings estimated in Witness Levine's testimony. In my judgment, several risk factors – identified at pages 8-10 of my testimony – warranted a relatively conservative pass-through. After consulting with postal management – and in particular getting their insight on cost pass-throughs proposed in other filings – I developed the notion that a pass-through in the range of 60-70% would be relatively conservative.

I chose the lower end of this range in order to minimize the effects of differing methodologies espoused by the Postal Rate Commission and the Postal Service for estimating the volume-variability of mail processing costs. As discussed at page 3 of the Request (see also footnote 2 on that page), Witness Levine's cost avoidance estimates assume the Commission's costing methodology. If the Postal Service's costing methodology had been used, cost savings would only have been about 57% of those estimated (please see USPS-T-2, Attachment E). The proposed 60% cost pass-through, by not greatly exceeding that 57% factor, drives a minimal wedge between the two competing costing methodologies.

Response to APMU/USPS-T1-2b.

b. The risk factors identified at pages 8-10 of my testimony acknowledge the possibility that cost savings from the proposed Priority Mail presort discount could fall short of, *or could exceed*, Witness Levine's estimates. I only discussed the downside risk in my testimony because I wanted to try to avoid setting discounts that exceed the cost savings. I was not informed by Witness Levine of any other factors or contingencies that could cause cost savings to exceed his estimates.

APMU/USPS-T1-3.

- a. If you had more confidence that cost savings you have estimated for the Priority Mail presort experiment are accurate, would you have proposed a higher percentage pass-through?
- b. Assume that the cost savings currently estimated for the Priority Mail presort experiment are accurate. (i) What percentage pass-through would you recommend? (ii) If less than 100 percent, please explain why.

RESPONSE:

a. I would have proposed a higher percentage pass-through if the risk of not realizing estimated cost savings had been lower. The presence of risk does not mean that the cost estimates are "inaccurate." It just means that there is a variance associated with their estimation.

b. Witness Levine's cost estimates apply to the Test Year (FY 2001). But over time, change is inevitable. Before the experiment is over, there will be changes in the way Priority Mail is handled and changes in other cost determinants that could have an effect on the cost savings realized from presorting. Indeed, reintegration of the PMPC network, which is underway, is a risk factor mentioned at page 10 of my testimony. With the possibility that cost savings from presorting could, over time, fall below current estimates, I would be hesitant to propose a 100% pass-through, even if I could be absolutely certain – in this hypothetical scenario – that the estimates are spot-on for Fiscal Year 2001. A pass-through less than 100% would guard against contribution leakage – and a shifting of the institutional cost burden to mailers not participating in the experiment – in the future.

APMU/USPS-T1-4.

Please refer to your testimony starting at page 10, line 17, through page 11, line 3. You state that the proposed discount structure "will attract more mailer interest than...the old discount" and you "posit that, compared to the old presort discount, relative mailer interest in the proposed presort discount will double to 1.2 – 1.8 percent of total Priority Mail volume."

- a. On average, how many mailers used the old Priority Mail discount before it was discontinued?
- b. Is it your position that the volume from the 10 or so mailers who ultimately qualify to participate in the experiment will be double the volume of Priority Mail sent under the old (now discontinued) discount?
- c. Or is it your position that if the proposed discount were made available to all Priority Mail users, as was the old discount, the volume from the proposed discounts would result in a doubling? Please clarify whether you are talking about the volume arising solely from Phase I of the experiment, or the volume likely to arise either from Phase II of the experiment or from full implementation.
- d. If it is your opinion that the volume from those mailers who participate in the experiment will amount to 1.2 to 1.8 percent of total Priority Mail volume, what is your estimate of the percentage of Priority Mail that would take advantage of the presort discount if it were made available to all Priority Mail users?

RESPONSE:

a. As indicated in my response to OCA/USPS-T1-16, for Fiscal Year 1998, the last full year in which the old Priority Mail presort discount was in place, the CBCIS database shows 206 Priority Mail presort mailers mailing from 213 locations.

b. It is my position that the 10 or so mailers who ultimately qualify for Phase I of the proposed experiment will account for a doubling of *relative* volume compared to the old Priority Mail presort discount. Since total Priority Mail volume has grown since the old discount was eliminated, this implies more than a doubling of presort volume.

c. No, my estimate applies only to Phase I of the experiment. This was acknowledged at page 11, lines 9-11 of my testimony, and in line 18 on page 1 of Attachment A to my testimony.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

Response to APMU/USPS-T1-4d

d. I do not have an estimate for the Priority Mail volume that would be attracted to a presort discount available to all qualified mailers. That is one of the reasons for proposing an experiment: mailer interest can be gauged, and data necessary to file for a potential permanent classification – which would give all qualified Priority Mailers a presort option – can be collected.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

APMU/USPS-T1-5.

The minimum volume to qualify for the presort discount is 300 pieces per day (or 500 pounds), as stated in your testimony at page 3 line 2.

- a. Please confirm that a mailer that works 250 days a year and just qualifies for the discount will produce an annual volume of about 75,000 pieces.
- b. Please confirm that a mailer that works 250 days a year and has double the minimum required to qualify for the discount will produce an annual volume of about 150,000 pieces.

RESPONSE:

a. Not confirmed. My testimony at page 3, line 2 does not say "per day." The requirement of 300 pieces or 500 pounds is per mailing. It would not be necessary to present a mailing every day, so the referenced mailer would not have to produce annual volume of 75,000 pieces.

b. Not confirmed. My testimony at page 3, line 2 does not say "per day." The requirement of 300 pieces or 500 pounds is per mailing. It would not be necessary to present a mailing every day, so the referenced mailer would not have to produce annual volume of 150,000 pieces.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

APMU/USPS-T1-6.

Please confirm that if 10 participants in the experiment generate between 18.6 – 18.9 million pieces annually, then (i) on average each participant will produce about 1.9 million pieces, and (ii) a participant that generates about 1.9 million pieces annually will exceed the minimum requirement by approximately 25 times.

RESPONSE:

- (i) Confirmed.
- (ii) Not confirmed. The requirement of 300 pieces or 500 pounds is per mailing. The number of presorted pieces tendered per year will depend in part on the frequency of mailings, for which there is no requirement in the proposed Priority Mail presort discount. Thus there is no minimum annual volume requirement against which the 1.9 million pieces can be compared.

APMU/USPS-T1-7.

Please refer to your testimony at page 4 line 6, which states that the Postal Service will seek participants of diverse size.

- a. What is the annual Priority Mail volume of the smallest participant expected to participate in the experiment?
- b. What is the annual Priority Mail volume of the second smallest participant expected to participate in the experiment?
- c. Please confirm that if some participants in the experiment have annual volume of less than 1 million pieces, and the average annual volume for all 10 participants is about 1.9 million, then some participants will necessarily have to have annual Priority Mail volume in excess of 2 million pieces.
- d. What is the Postal Service's best estimate of the number of Priority Mail users with annual volume in excess of 2.5 million?

RESPONSE:

- a. The minimum quantity requirement per mailing is 300 pieces or 500 pounds.

As stated at page 4, lines 9-13 of my testimony, "The Postal Service also has a preference for customers who....will present presorted mail on a regular or continuing basis, rather than infrequently or sporadically." I can therefore venture that the smallest participant in the proposed experiment will have presorted volume of at least several thousand pieces annually.

- b. My expectations for annual presorted volume of the second smallest participant in the experiment are not materially different than the expectations for the smallest participant expressed in my response to part (a) above.

- c. Confirmed.

- d. In Fiscal Year 1999, 6 customers (some mailing from more than one location) and 7 customer locations had Priority Mail volume in excess of 2.5 million pieces.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

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Response to APMU/USPS-T1-7d (Cont.)

Several more customers and customer locations had volume just below 2.5 million, so the number with volume exceeding 2.5 million may have increased since FY 1999.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO APMU INTERROGATORIES

APMU/USPS-T1-8.

During the last two years of the old presort discount (11 cents) for Priority Mail, what was the estimated pass-through of cost savings?

RESPONSE:

I am informed that the cost study accompanying the Docket No. R90-1 Priority Mail presort discount filing was not updated when the discount was increased to 11 cents per piece in Docket No. R94-1. In fact, there were no Priority Mail presort cost studies of any sort subsequent to Docket No. R90-1. Without cost knowledge for the last two years of the old presort discount, I am unable to say what kind of pass-through was implied by the 11-cent discount.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES**

NAA/USPS-T1-1. For the most recent 12 month period for which data are available, please provide:

- a. the proportion of Priority Mail mailings that have consisted of at least 300 pieces or at least 500 pounds;
- b. the proportion of Priority Mail mailings that have consisted of at least 150 pieces or at least 250 pounds.

RESPONSE:

a. The only data on mailing sizes available to me are from a special tabulation – “Revenue, Pieces and Weight by Zone and Mailing Size” – prepared by a Postal Service contractor from PERMIT System data. The tabulation covers Postal Service Quarters 3 and 4 of 1999, and 1 and 2 of 2000. PERMIT System Priority Mail accounts for about 21% of total Priority Mail volume and 24% of total Priority Mail weight. No information on mailing sizes is available for non-PERMIT System mailings.

For Q3 1999 - Q2 2000, total PERMIT System Priority Mail volume was 257,787,950 pieces from 315,654 “transactions” (from what I understand, comparable to “mailings”). The total weight was 549,892,675 pounds. On average, there were 817 pieces per transaction and 2.13 pounds per piece.

The tabulation does not provide a breakout for mailings above and below 300 pieces, but does for 200 and 500 pieces. There were 94,223 transactions (29.9% of the total) of 500 or more pieces, with total volume at 226,331,743 pieces and total weight at 461,341,372 pounds. The average number of pieces per transaction was 2,401, and the average number of pounds per piece was 2.04. There were 157,824 transactions (50.0% of the total) of 200 or more pieces, with total volume at 246,843,261 pieces and total weight at 513,564,205 pounds. The average number of pieces per transaction was 1,564, and the average number of pounds per piece was 2.08.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES

Response to NAA/USPS-T1-1a (Cont.)

So, the proportion of PERMIT System Priority Mail transactions that consisted of at least 300 pieces is somewhere between 29.9% and 50.0%. The tabulation provides data only by mailing size, not by mailing weight, so the proportion of transactions consisting of at least 500 pounds is not known.

b. The tabulation "Revenue, Pieces and Weight by Zone and Mailing Size" does not provide a breakout at 150 pieces. Please see my answer to part (a) above. No data are provided by mailing weight, so the proportion of transactions consisting of at least 250 pounds is not known.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES**

NAA/USPS-T1-2. For the most recent 12 month period for which data are available, please provide:

- a. the approximate number of Priority mailers that entered mailings of at least 300 pieces or at least 500 pounds;
- b. the approximate number of Priority mailers that entered mailings of at least 150 pieces or at least 250 pounds

RESPONSE:

- a. No information is available on the number of mailers with mailings of various sizes.
 - b. No information is available on the number of mailers with mailings of various sizes.
-

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES**

NAA/USPS-T1-3. Please refer to your response to Presiding Officer's Information Request No. 1, Question 3.

- a. Who within the Postal Service would have the responsibility of establishing the minimum piece and/or pound requirements?
- b. Would you be involved in establishing the minimum piece and/or pound requirements?
- c. What minimum piece and/or pound requirements do you believe would be appropriate for the discounts that you propose? Please explain why?

RESPONSE:

a. The following areas of the Postal Service will share responsibility for establishing these requirements: Mail Preparation and Standards, a section of the Pricing and Product Design Department; the Operations Department; Expedited/Package Services (E/PS); Pricing, a section of the Pricing and Product Design Department; and Special Studies, a section of the Finance Department.

b. As a member of the Pricing section of Pricing and Product Design, it is possible that I will have a hand in establishing these requirements.

c. I believe that appropriate minimum piece and/or pound requirements are as stated in my response to POIR No. 1, Question 3: consistent with Postal Service handling practices, and with container utilization and weight capacities.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES**

NAA/USPS-T1-4. Would a Priority Mailing of 300 one-pound pieces, of which 150 sets of two pieces each were presorted to 150 different 5-digit ZIP Codes, be eligible for the proposed discount (assuming that the mailer were accepted as a participant in the experiment)?

RESPONSE:

No, such a mailing would not be eligible for the proposed 5-digit presort discount.

As pointed out in Witness Levine's response to NAA/USPS-T2-3, two-piece separations could not be considered as presorted. Accordingly, the minimum number of pieces per container will certainly exceed two pieces.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO NAA INTERROGATORIES

NAA/USPS-T1-5. Please confirm that it is your understanding that the cost estimates provided by witness Levine upon which you base your recommended discounts do not require a minimum volume of pieces at any particular level of presort. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. As explained in Witness Levine's response to NAA/USPS-T2-3, his cost estimates assume minimum container volumes so that presorted mail is prepared as described in his response to NAA/USPS-T2-2.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-1. Please refer to your testimony at page 5, lines 19-21, where it states that the Priority Mail presort discount eliminated in Docket No. R97-1 "limited flexibility" because of its "density-based sequential sorting requirements...." Please explain in detail how four levels of "density-based sequential sorting requirements" limited flexibility for mailers. Please explain how the proposed experiment differs from an arrangement with "density-based sequential sorting requirements."

RESPONSE:

The "density-based sequential sorting requirements," as I call them, of the Priority Mail presort discount eliminated in Docket No. R97-1, are described in Section M120.2.7 of Domestic Mail Manual (DMM) 53.

For flats or letters, a five-digit sort was required if a 15-pound sack sorted to 5 digits could be prepared. A lighter sack sorted to 5 digits could optionally be prepared with a minimum of 6 pieces. If not a 5-digit sort, a 3-digit sort was required if a 15-pound sack sorted to 3 digits could be prepared. A lighter sack sorted to 3 digits could optionally be prepared with a minimum of 6 pieces. If not a 5-digit or 3-digit sort, an SCF sort was required if a 15-pound sack sorted to SCF could be prepared. A lighter sack sorted to SCF could optionally be prepared with a minimum of 6 pieces. If not a 5-digit, 3-digit or SCF sort, an ADC sort was optional.

For parcels, a five-digit sort was required if 6 or more pieces sorted to 5 digits could be prepared. If not a 5-digit sort, a 3-digit sort was required if 6 or more pieces sorted to 3 digits could be prepared. If not a 5-digit or 3-digit sort, an SCF sort was required if 6 or more pieces sorted to SCF could be prepared. If not a 5-digit, 3-digit or SCF sort, an ADC sort was optional.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

These rules required presort mailers to check their densities first at 5 digits, then at 3 digits, then at SCF, then at ADC. This was onerous compared to the current Priority Mail presort proposal, under which any of three presort levels – 5-digit, 3-digit or ADC – can be chosen as an option regardless of densities at the other two presort levels. Under the current proposal, mailers have the flexibility to choose any of three (or any two, or all three) presort options. Previously, presort choice was limited by the sequential sorting requirements.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-2. Please refer to your testimony at page 9, lines 6-8, which states, "The first risk with respect to fully realizing estimated cost savings is that presort volume may have different characteristics from the overall Priority Mail profile." Please provide data on the mail mix characteristics of the Priority Mail volume that qualified for participation in the previous Priority Mail presort discount program. What is the current flats-parcel mix of ADP?

RESPONSE:

The flats-parcel mix in the previous Priority Mail presort discount program is not known. I do know that the majority of presort mailers had average realized revenue per piece (total revenue ÷ total number of pieces) of \$2.89, indicating that they were exclusively mailing pieces 2 pounds and under (\$3.00 two-pound base rate minus \$.11 presort discount).

I am informed by Witness Kalenka (USPS-T-3), Senior Vice President at ADP, that ADP's current mail mix is 100 percent flats and letters, 0 percent parcels.

As indicated on page 4, lines 5-6 of my testimony – "To learn as much as possible from the experiment, the Postal Service will seek participants of diverse....mail characteristics (e.g., shape)" – both mailers who predominantly mail flats and mailers who predominantly mail parcels will be solicited for the proposed Priority Mail presort discount.

OCA/USPS-T1-3. Please refer to your testimony at page 9, lines 17-18, which states, "A second mitigating factor is that the Postal Service has limited experience with Priority Mail worksharing." Please explain in detail how Priority Mail worksharing is different from other types of worksharing.

RESPONSE:

I have not testified that Priority Mail worksharing is different from other types of worksharing. I have only said that Priority Mail is characterized by comparatively little worksharing experience. This reduces the amount of within-subclass information that can inform the development of worksharing discounts. In my judgment, the lack of within-subclass information introduces an element of uncertainty that warrants some mitigation of the cost pass-through.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-4. Please refer to your testimony at page 10, lines 7 and 8.

- a. Please describe in detail "the proposed presort discount's containerization requirements."
- b. Please describe the differences, if any, from the current Priority Mail containerization requirements.

RESPONSE:

- a. Containerization and other "make-up" requirements have not been finalized for the proposed Priority Mail presort discount. Eventually there will be such requirements, which will be similar to those for worksharing discounts in other mail classes. The requirements will specify whether presorted mail should be presented in tubs, trays or sacks. They may in some instances be tailored to customer and entry location, depending on such factors as the type of transportation to be used at the entry location. For example, I anticipate that presorted mail will be accepted on pallets only if the facility accepting the mailing plans to ship the mail to its destination by surface transportation. Pallets cannot be transported by air because they are not accepted by commercial airlines.
- b. I am informed by the USPS Office of Mail Preparation and Standards that currently there are no containerization requirements for Priority Mail.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

OCA/USPS-T1-5. Please refer to our testimony at page 10, lines 20-23 (sic), where it states, "The Postal Service believes that the proposed new presort discount's flexibility...will attract more mailer interest than...the old discount." Please confirm that the Postal Service's belief is based in part on discussion with potential Priority Mail presort mailers.

- a. If you do not confirm, please explain the basis for your assumption that the proposed discount will double the volume of presorted Priority Mail, as compared to the volume of the old presort discount.
- b. If you do confirm, please provide the number of potential Priority Mail presort mailers with whom the Postal Service discussed the proposed Priority Mail presort discount.

RESPONSE:

Confirmed.

- a. Not applicable.
- b. I personally discussed the proposed Priority mail presort discount with one mailer, ADP, represented by Witness Kalenka (USPS-T-3), who expressed ADP's interest in the proposal, as indicated in his testimony. Other Priority Mailers were made aware that a presort proposal was under development from industry (e.g., trade association) meetings and through contact with the Postal Service sales organization. The number of mailers that were so informed is not known. Before the presort discount was filed, Postal Service management indicated to me that at least a few mailers had expressed interest in the proposal.

Independent of mailer sentiment, I formed the *a priori* notion that, based on the greater choice given mailers, the proposed presort discount will attract more mailer interest than the old discount. This was the main basis for positing a doubling of presort volume in relation to total Priority Mail volume.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-6. Please refer to your testimony at pages 15 and 16, lines 23 and 1, respectively, where it states that the two-to-three-day package and document delivery "market is approximately 2 billion pieces per year." Please provide any data, the source, and the methodology used to arrive at this figure, or other information, that substantiate this statement.

RESPONSE:

I based my statement on the best information available to me, the attached table from "Competitor and Total Package Delivery Market Growth Projections," by The Colography Group, Inc. That document estimates the total market for two- and three-day delivery in 1999 at 1,939 million pieces. This figure is aggregated from estimates for different competitors in the market. I do not know how Colography developed the individual competitor estimates.

COMPETITOR AND TOTAL PACKAGE DELIVERY MARKET GROWTH PROJECTIONS

COMPETITOR MARKET SHARE PROJECTIONS 2000-2004

(Data in Thousands)

SECOND-DAY AND THREE-DAY AIR		1998	1999	2000	2001	2002	2003	2004
PIECES								
FedEx		338,415	343,257	365,868	367,348	380,706	383,883	408,861
UPS		268,000	308,329	334,229	357,859	379,436	400,305	418,520
Albion		78,896	80,912	86,695	90,399	95,370	100,801	107,157
Other Commercial Carriers		6,930	6,741	6,539	6,441	6,378	6,313	6,250
Priority Mail		1,180,855	1,159,881	1,234,472	1,262,865	1,284,436	1,326,737	1,357,313
TOTAL MARKET		1,909,096	1,938,920	2,016,882	2,085,011	2,155,825	2,228,210	2,299,101
PERCENT MARKET SHARE OF PIECES								
FedEx		17.6%	17.7%	17.6%	17.6%	17.6%	17.7%	17.8%
UPS		15.1%	15.9%	16.6%	17.2%	17.6%	18.0%	18.2%
Albion		4.1%	4.2%	4.2%	4.3%	4.4%	4.5%	4.7%
Other Commercial Carriers		0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Priority Mail		62.6%	61.9%	61.2%	60.6%	60.0%	59.5%	59.0%
TOTAL MARKET		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
REVENUE								
FedEx		\$2,202,880	\$2,318,351	\$2,428,077	\$2,528,746	\$2,643,427	\$2,768,976	\$2,899,794
UPS		\$2,487,808	\$2,722,638	\$2,980,744	\$3,224,300	\$3,451,936	\$3,678,210	\$3,893,312
Albion		\$520,281	\$500,428	\$559,426	\$538,721	\$590,569	\$727,284	\$780,078
Other Commercial Carriers		\$87,445	\$86,735	\$86,934	\$86,486	\$86,477	\$86,469	\$86,480
Priority Mail		\$4,288,543	\$4,708,088	\$4,839,128	\$5,083,093	\$5,025,170	\$5,970,789	\$6,106,128
TOTAL MARKET		\$9,596,937	\$10,394,149	\$10,932,311	\$12,161,348	\$12,687,599	\$13,228,716	\$13,767,771
PERCENT MARKET SHARE OF REVENUE								
FedEx		23.0%	22.3%	22.2%	20.8%	20.8%	20.8%	21.1%
UPS		25.9%	26.2%	27.3%	26.5%	27.2%	27.8%	28.3%
Albion		5.4%	5.4%	5.5%	5.3%	5.4%	5.5%	5.7%
Other Commercial Carriers		0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.6%
Priority Mail		44.8%	45.3%	44.3%	46.7%	45.9%	45.1%	44.4%
TOTAL MARKET		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-7. Please refer to your response to OCA/USPS-T1-1.

- a. Please confirm that the "density-based sequential sorting requirements" described in Section M120.2.7 of Domestic Mail Manual (DMM) 53 were specified by the Postal Service. If you do not confirm, please explain.
- b. Please confirm that the DMCS language establishing the Priority Mail presort discount eliminated in Docket No. R97-1 authorized the Postal Service to determine the machinability, addressing, and other preparation requirements. If you do not confirm, please explain.
- c. Please identify any differences between the DMCS language establishing the Priority Mail presort discount eliminated in Docket No. R97-1 and the DMCS language proposed for the Priority mail presort discount in this proceeding, and explain the significance of those differences.

RESPONSE:

- a. Confirmed.
- b. Confirmed. Referring to PRC Op. R90-1, Appendix III, "Recommended Changes in the Domestic Mail Classification Schedule" (which established the old Priority Mail presort discount), at page 4: §100.0232, "Presorted Priority Mail is Priority Mail which is presented in a single mailing of 300 or more pieces, properly prepared and presorted." However, it should be noted that the DMCS language recommended in Docket No. R90-1 was based on the classification proposal of USPS witness Lyons (USPS-T-18), whose testimony, at Workpaper III.C.1, page 11, specified the density-based sequential sorting requirements reflected in the Domestic Mail Manual implementing regulations.
- c. Any comparison of the former Priority Mail presort categories and those proposed here also should include reference to the Rate Schedules. Accordingly, Attachment B in the MC2001-1 Request, "Proposed Changes in the Rate Schedules," should be considered along with the proposed DMCS changes in Schedule A. Footnote 4 in Attachment B indicates that three presort levels –

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

ADC, 3-digit, and 5-digit – will be available to Priority Mailers participating in the proposed experiment. In contrast, the Priority Mail presort Rate Schedule footnote eliminated in Docket No. R97-1 established one discount irrespective of the level of presortation. The Postal Service concedes that the proposed experimental DMCS wording may not make explicitly clear a key distinction between the proposed presort discount and the presort discount eliminated in Docket No. R97-1: *choice* of any (or any two, or all three) of the three presort levels, regardless of densities at the other presort levels. However, the exclusion of such a requirement is apparent when one compares my testimony to that of witness Lyons from Docket No. R90-1.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-8. Please refer to your responses to OCA/USPS-T1-1 and OCA/USPS-T1-4 (a).

- a. In the last paragraph of your response to OCA/USPS-T1-1, you state, "This [density requirement at each presort level] was onerous compared to the current Priority Mail presort proposal, under which any of three presort levels – 5-digit, 3-digit or ADC – can be chosen as an option regardless of densities at the other two presort levels." Please confirm that neither the density requirement at each presort level nor the ability to choose any of three presort levels regardless of densities at the other two levels is specified in the DMCS language proposed for the Priority Mail presort discount in this proceeding. If you do not confirm, please explain.
- b. Please confirm that the quoted statement in part a. above describes, at least in part, make up requirements for the proposed Priority Mail presort discount. If you do not confirm, please explain.
- c. Please reconcile the quoted statement in part a. above with your response in OCA/USPS-T1-4 (a), where it states "Containerization and other 'make-up' requirements have not been finalized for the proposed Priority Mail presort discount."

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The choice of three presort levels (5-digit, 3-digit, or ADC) is made clear in my testimony at page 2, lines 18-20 and page 3, line 1. While make-up requirements have not been finalized, it is known that the choice of presort level will not be contingent on minimum densities at – or any other features of – the other optional presort levels. Accordingly, no restrictions on the choice of three presort levels were mentioned in my testimony. This stands in contrast to witness Lyons's testimony in Docket No. R90-1, which explicitly stated the contingency of presort requirements on densities at other presort levels.

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TO OCA INTERROGATORIES

Please note, too, that I did not try to define or in any way describe make-up requirements in the cited quote. I only made reference to them. I could not define or describe the make-up requirements because they had not been finalized. So there is no contradiction with my response to OCA/USPS-T1-4.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-9. Please refer to your response to OCA/USPS-T1-2.

- a. Since January 7, 2001, what is the proportion of flat- and parcel-shaped pieces weighing one pound or less in Priority Mail?
- b. For FY 2000, what was the proportion of flat- and parcel-shaped pieces weighing one pound or less in Priority Mail?
- c. For FY 2000, what was the proportion of flat- and parcel-shaped pieces weighing two pounds or less in Priority Mail?

RESPONSE:

As provided by USPS Statistical Programs, in the Finance Department:

- a. From January 7, 2001 to March 23, 2001, 52.36% flats, 47.64% parcels.
- b. 55.13% flats, 44.87% parcels.
- c. 43.12% flats, 56.88% parcels.

These data are based on RPW samples. It is assumed that all flat rate envelope mail is flat-shaped, which is not strictly true – it is possible to stuff a Priority Mail flat rate envelope to greater than .75 inches thick, and indeed, PERMIT data show a small amount of parcel-shaped Priority Mail flat rate envelopes. The data also exclude small amounts of letters and cards. The percentages – which sum to 100% – therefore only represent shares of total flat and parcel volume.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-10. Please refer to your response to OCA/USPS-T1-2.

- a. How many presort mailers took advantage of the Priority Mail presort discount eliminated in Docket No. R97-1?
- b. How many of the presort mailers "had average realized revenue per piece" equal to the two-pound rate?

RESPONSE:

a. First off, I would like to correct the assertion in my response to OCA/USPS-T1-2 that average realized revenue per piece of \$2.89 necessarily indicates mail pieces exclusively two pounds and under. Such an average realized revenue per piece could also derive from flat rate envelopes, which can be above or below two pounds in weight.

According to the Corporate Business Customer Information System (CBCIS), which is believed to capture all but a small percentage of total USPS commercial (but not Retail) revenue, in Fiscal Year 1998, the last full year in which the old Priority Mail presort discount was in place, 217 customer locations took advantage of the discount. CBCIS is a system that consolidates commercial mailing information from several different sources, with 54% of its revenue coming from the Permit System.

b. CBCIS includes some mailers who presorted such small amounts, that due to rounding, total revenue divided by the total number of pieces is not precise enough to definitively indicate that average realized revenue per

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
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piece was equal to \$2.89, the \$3.00 two-pound base rate (and flat rate envelope base rate) minus the \$0.11 presort discount. Among the largest 192 customer locations, for which I deemed the referenced ratio to be sufficiently precise to indicate that presorted mail was exclusively two pounds and under and/or in flat rate envelopes, 106 had average realized revenue equal to \$2.89. Of the remaining 25 customers locations, 16 had average realized revenue per piece sufficiently close to \$2.89 to suggest that their presorted mail was exclusively 2 pounds and under and/or in flat rate envelopes. The total number of presort customer locations that had averaged realized revenue per piece of \$2.89 is therefore estimated at 122.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-11. Please refer to your response to OCA/USPS-T1-2, where it states that "the majority of presort mailers...were exclusively mailing pieces 2 pounds and under."

- a. Please confirm that the total volume of Priority Mail utilizing the Priority Mail presort discount eliminated in Docket No. R97-1 consisted of pieces weighing 2 pounds or less. If you do not confirm, please explain and provide the average weight of Priority Mail utilizing the Priority Mail presort discount eliminated in Docket No. R97-1, the volume weighing 2 pounds or less, and the volume weighing more than 2 pounds.
- b. Please confirm that ADP, the only mailer with whom you have discussed the proposed Priority Mail presort discount, has a particular interest in a discount for the \$3.50 one-pound Priority Mail rate. If you do not confirm, please explain.
- c. Please confirm that ADP initiated discussions with the Postal Service seeking a Priority Mail presort discount. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. As my response to OCA/USPS-T1-10 (b) indicates, some Priority Mail presort mailers in FY 1998 had average realized revenue per piece above the two-pound rate, indicating that they presorted at least some pieces weighing more than two pounds.

Weight distribution data for presorted Priority Mail in GFY 1998 can be found in the "Special Priority Report" attached to the Docket No. R2000-1 interrogatory response to UPS/USPS-T34-15, available at TR 7/2779. For weight-rated presorted Priority Mail volume in GFY 1998, 83.9% was two pounds or under and 16.1% was over two pounds. For flat rate envelope presorted Priority Mail volume in GFY 1998, 90.3% was two pounds or under and 9.7% was over two pounds. Altogether, 84.5% was two pounds or under and 15.5% was over two pounds. I am informed by the Statistical Programs unit of the Postal

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
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Service's Finance Department that the average weight per presorted Priority Mail piece in GFY 1998 was 1.24 pounds. For comparison, I note from the Fiscal Year 1998 Cost and Revenue Analysis (CRA) report that the average weight per piece for all Priority Mail in that year was 1.69 pounds.

b. *Redirected to Witness Kalenka.*

c. *The Postal Service has had discussions with ADP and other Priority Mail customers concerning elimination of the old presort discount ever since that elimination took place. These discussions have taken place between local or district postal personnel and customer representatives. They have also taken place between USPS headquarters personnel and customer representatives. Such discussions have arisen at scheduled meetings, from encounters at trade shows, etc. In this context, the Postal Service is unaware of the existence of any basis for establishing whether ADP or the Postal Service initiated discussions about a possible new Priority Mail presort discount.*

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-12. Please refer to your testimony at page 2, lines 19-20.

- a. Please confirm that the value of the proposed per-piece presort discounts to the mailer declines as the weight of the Priority Mail piece increases. If you do not confirm, please explain.
- b. Please confirm that the value of the proposed per-piece presort discounts provides a greater incentive for mailers to present lighter weight Priority Mail pieces, as compared to heavier weight pieces. If you do not confirm, please explain.

RESPONSE:

a. Not confirmed. The value of the discounts, which I construe as their monetary amounts (i.e., 12 cents for an ADC sort, 16 cents for a 3-digit sort, and 25 cents for a 5-digit sort), does not vary by weight level. This was stated in my testimony at page 20, lines 8-10: "The simplicity of the rate schedule is maintained because the discounts apply equally to all rates, regardless of weight or zone."

b. Not confirmed. I do not perceive that mailers will have a greater incentive, as a result of the proposed presort discount, to present lighter-weight Priority Mail pieces, as compared to heavier-weight pieces. This would imply, for example, that mailers will be motivated to change their mail mix by reducing the average size of their mail pieces, such as by breaking up heavier-weight packages to produce lighter-weight ones. I do not envision this taking place.

I do offer, however, that mailers of lighter-weight pieces will have a greater incentive to participate in the proposed Priority Mail presort discount than mailers of heavier-weight pieces. This is because mailers of lighter-weight pieces will realize greater percentage rate decreases from the proposed presort discounts because their base rates are lower.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-13. Please refer to Attachment A in your testimony.

- a. Please confirm that the per-piece revenue and attributable cost figures represent the average per-piece revenue and average per-piece attributable cost for Priority Mail. If you do not confirm, please explain.
- b. Please confirm that the majority of Priority Mail pieces utilizing the proposed Priority Mail presort discount will be "light weight" pieces; that is, pieces weighing 2 pounds or less, and likely to weigh one pound or less. If you do not confirm, please explain.
- c. Please confirm that more representative data for pieces utilizing the proposed Priority Mail presort discount would be the average per-piece revenue and average per-piece attributable cost for one-pound pieces. If you do not confirm, please explain.
- d. Please provide a version of Attachment A using revenues, costs, and new volumes based upon an assumption of one-pound pieces.

RESPONSE:

- a. Confirmed. The per-piece revenue in cell 1c and per-piece attributable cost in cell 1e represent averages for all Priority Mail.
- b. Not confirmed. An analysis of the Special Priority Report cited in my response to OCA/USPS-T1-11(a) reveals that in GFY 1998, 84.5% of presorted Priority Mail volume in GFY 1998 (the last full year in which the old Priority Mail presort discount was in place) was two pounds or under, and 48.0% was one pound or under. This does not suggest that the majority of presorted Priority Mail is "likely to weigh one pound or less."
- c. Given the finding – noted in my response to OCA/USPS-T1-11(a) – that in FY/GFY 1998, presorted Priority Mail was in fact lower-weight on average than Priority Mail overall, and the admission in my response to OCA/USPS-T1-12(b) that mailers of lighter-weight pieces will have a greater incentive to participate in the proposed presort discount than mailers of heavier-weight pieces, it is reasonable to conclude that mail pieces taking the proposed presort discount will

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
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be lighter on average than the average for all Priority Mail. However, one pound appears to be too low an estimate of the average presorted Priority Mail piece. (Note the average of 1.24 pounds in GFY 1998.) The average weight of pieces that will take the proposed Priority Mail discount is probably somewhere between one pound and the average weight for all Priority Mail. (The latter was the implicit assumption in Attachment A to my testimony.) I am unable to confirm which of these poles – one pound or the average weight for all Priority Mail – is more representative of mail pieces that will take the proposed presort discount.

d. The requested version of Attachment A is attached. Absent knowledge of average attributable cost per piece for one-pound pieces, I made the simplifying assumption that it is in the same relation to average attributable cost per piece for all Priority Mail (\$2.823) as the relation of the one-pound base rate (\$3.50) to average revenue per piece for all Priority Mail (\$4.569).

USPS-T-1
Attachment A
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Notes For Calculations

Source for 1a, 1b, 1d, 1f: Docket No. R2000-1, Appendix G, Schedule 1

$$1c = 1b/1a$$

$$1e = 1d/1a$$

$$1g = 1f/1a$$

$$1h = 1b/1d$$

$$2a = 1a \times (1 - 9a)$$

$$2b = 1b - 3b - (((14a + 15a + 16a)/3) \times 3a)$$

$$2d = 1d - 3d - (((11a + 12a + 13a)/3) \times 3a)$$

$$2f = 2b - 2d$$

$$3a = 1a \times 9a$$

$$3b = 3a \times (\$3.50 - ((14a + 15a + 16a)/3))$$

$$3d = 3a \times (((\$3.50/1c) \times 1e) - ((11a + 12a + 13a)/3))$$

$$3f = 3b - 3d$$

$$4a = 3a \times (((14a + 15a + 16a)/3)/\$3.50)/2 \times 10a$$

$$4b = 4a \times (\$3.50 - ((14a + 15a + 16a)/3))$$

$$4d = 4a \times ((1e \times (\$3.50/1c)) - ((11a + 12a + 13a)/3))$$

$$4f = 4b - 4d$$

$$5a, 5b, 5d, 5f = \text{Row 2} + \text{Row 3} + \text{Row 4}$$

$$5c = 5b/5a$$

$$5e = 5d/5a$$

$$5g = 5f/5a$$

$$6b = 17a \times 18a$$

$$6f = 6b - 6d$$

$$7a, 7b, 7d, 7f = \text{Row 5} + \text{Row 6}$$

$$7c = 7b/7a$$

$$7e = 7d/7a$$

$$7g = 7f/7a$$

$$7h = 7b/7d$$

$$\text{Row 8} = \text{Row 7} - \text{Row 1}$$

$$\text{Row 9: See Section II.E}$$

$$\text{Row 10 source: Docket No. R2000-1, USPS-T-8 at 21.}$$

$$\text{Rows 11-13: See Table 1 in Witness Levine's Testimony, USPS-T-2}$$

$$\text{Rows 14-16: See Section II.A}$$

$$\text{Row 17: See Section II.E}$$

$$\text{Row 18: See Section II.B}$$

Attachment
to Response to
OCA/USPS-T-13
page 2 of 2

RESPONSE OF POSTAL SERVICE WITNESS SCHERER TO OCA INTERROGATORIES

OCA/USPS-T1-14. Please refer to your response to OCA/USPS-T1-7. Consider the following two mailers:

"Mailer 1" presents 300 pieces of Priority Mail each weighing 1 pound addressed for delivery within one ADC. Assume further that 225 pieces are addressed for delivery to one ZIP Code, and the remaining 75 pieces are equally distributed among 5 additional ZIP Codes within the ADC.

"Mailer 2" also presents 300 Priority Mail pieces each weighing 1 pound. However, assume all 300 pieces are equally distributed to 20 different 5-digit ZIP Codes.

- a. Please describe the preparation requirements for Mailer 1 and Mailer 2 under the Priority Mail presort discount eliminated in Docket No. R97-1.
- b. Please provide the per piece and total amount of the discount for Mailer 1 and Mailer 2 under the Priority Mail presort discount eliminated in Docket No. R97-1.
- c. Please provide the per-piece and total amount of the discount for Mailer 1 and Mailer 2, and explain how the discounts will differ, under the proposed Priority Mail presort discount.
- d. Please confirm that the Priority Mail presort discount eliminated in Docket No. R97-1 provided a greater incentive to mailers to present low-density mailings as compared to high-density mailings of presorted Priority Mail. If you do not confirm, please explain.
- e. Please confirm that the proposed Priority Mail presort discount provides a greater incentive to mailers to present high-density mailings as compared to low-density mailings of presorted Priority Mail. If you do not confirm, please explain.

RESPONSE:

- a. This depends on whether the hypothetical 300 pieces are flats or parcels. For flats: As I stated in my response to OCA/USPS-T1-1, "a five-digit sort was required (under the Priority Mail presort discount eliminated in Docket No. R97-1) if a 15-pound sack sorted to 5 digits could be prepared." Mailer 1's 75 pieces, equally distributed among 5 ZIP Codes, would therefore have to be prepared in 5 sacks of 15 pieces (and pounds), each presorted to its respective 5-digit ZIP Code. The remaining 225 pieces would be prepared in sacks, presorted to the one common 5-digit ZIP Code. Mailer 2's 300 pieces would be prepared in 20 sacks of 15 pieces (and pounds), each presorted to its respective 5-digit ZIP Code.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T1-14a (Cont.)

For parcels: as I stated in my response to OCA/USPS-T1-1, "a five-digit sort was required if 6 or more pieces sorted to 5 digits could be prepared." Mailer 1's 75 pieces, equally distributed among 5 ZIP Codes, would be presented in sacks, presorted to their respective 5-digit ZIP Codes. The remaining 225 pieces would be prepared in sacks, presorted to the one common 5-digit ZIP Code. Mailer 2's 300 pieces would be presented in sacks, presorted to their respective 5-digit ZIP Codes.

b. For both Mailer 1 and Mailer 2, the discount for every piece – whether flats or parcels – is 11 cents, and the total amount of the discount is 300 pieces x 11 cents/piece = \$33.

c. The total amount of the discount cannot be answered without knowing how many pieces, at a minimum, will be required per container (or separation). Such make-up requirements have not been finalized yet. In addition, information has not been provided in the interrogatory to determine – for pieces that do not qualify for the 5-digit discount – qualification for the 3-digit discount. The per-piece discount is 25 cents for 5-digit presort, 16 cents for 3-digit presort, and 12 cents for ADC presort.

d. Not confirmed. No incentive mechanism was inherent in the old presort discount structure. Mailers were not able to choose one presort level over another. Rather, presort levels were dictated by what I have called the discount's "sequential sorting requirements."

e. Confirmed, assuming that the mailer's marginal cost of presorting to greater depth is less than the incremental discount therefrom.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

OCA/USPS-T1-15. Please refer to your testimony at page 10, line 23, and page 11, lines 1-2.

- a. Please confirm that the limited flexibility of the density-based sequential sorting requirements of the Priority Mail presort discount eliminated in Docket No. R97-1 likely discouraged the mailing of densely presorted Priority Mail pieces presented for the discount. If you do not confirm, please explain.
- b. Please confirm that the proposed Priority Mail presort discount, under which any of three presort levels (5-digit, 3-digit or ADC) can be chosen as an option regardless of densities at the other two presort levels, plus the larger discounts for deeper sort, is likely to more than double the proportion of presorted Priority Mail pieces. If you do not confirm, please explain.
- c. Please confirm that an increase of more than double the proportion of presorted Priority Mail pieces would increase your estimated loss of gross revenue. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. Please see my response to OCA/USPS-T1-14(d).
- b. Not confirmed. At page 10, line 23 through page 11, line 2 of my testimony, I posited that, compared to the old Priority Mail presort discount, the proportion of Priority Mail taking the proposed new discount will double. I have no basis for speculating that my estimate will be either high or low.
- c. Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-16. Please refer to your response to OCA/USPS-T1-10.

- a. Please define "customer location" as used throughout your response, and distinguish "customer location" from "presort mailer" as used in the interrogatory.
- b. Please answer OCA/USPS-T1-10, parts a. and b., with respect to "presort mailer."

RESPONSE:

a. "Customer location" in my response to OCA/USPS-T1-10 was meant to represent a unique location from which a customer sends mail. Some customers send mail from more than one location. Each customer location in the CBCIS database has a unique "Customer ID." I used "customer location" in my response because "presort mailer" was not defined in the interrogatory and it was not immediately apparent how many customers – as opposed to customer locations – were represented by the 217 observations (or lines of data) in the CBCIS-derived database of presorted Priority Mail in Fiscal Year 1998.

Upon performing various sorts and visual examinations of the Fiscal Year 1998 presorted Priority Mail database, I am now able to offer the following. Three customer locations are repeated once (same Customer ID appears twice), suggesting that the number of customer locations should be reduced from 217 to 214. Two additional entries have approximately the same customer name and the same address, suggesting – despite inexplicably different Customer IDs – that the number of customer locations should be further lowered to 213. Additionally, visual examination reveals two customers each mailing from two different locations, and one customer mailing from six different locations. While all other customers appear to be single-location mailers (customer names are different), I cannot definitively say that there are no other multi-

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T1-16a (Cont.)

location mailers because some customers may be related by affiliation (e.g., subsidiary relationship).

I am unable to distinguish "customer location" as used in my response to OCA/USPS-T1-10 from "presort mailer" as used in the interrogatory because the latter was not defined in the interrogatory.

b. I am unable to answer because "presort mailer" was not defined in OCA/USPS-T1-10. However, *if* "presort mailer" is taken to mean customer, rather than "customer location" as defined in part (a) above, I count 203 single-location mailers, two two-location mailers, and one six-location mailer, for a total of 206 presort mailers (from 213 locations).

Again, *if* "presort mailer" is taken to mean customer, rather than "customer location" as defined in part (a) above, the following can be said about the 206 presort mailers I have counted. Among the largest 183, for which I deem the ratio of total revenue to the total number of pieces as sufficiently precise to indicate that presorted mail was exclusively two pounds and under and/or in flat rate envelopes, 102 had average realized revenue equal to \$2.89. Of the remaining 23, 16 had average realized revenue per piece sufficiently close to \$2.89 to suggest that their presorted mail was exclusively 2 pounds and under and/or in flat rate envelopes. The total number of "presort mailers" that had average realized revenue per piece of \$2.89 is therefore estimated at 118.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER TO OCA INTERROGATORIES

OCA/USPS-T1-17. Please refer to your response to OCA/USPS-T1-10(a) and (b).

- a. For the 217 "customer locations," please provide the total revenue divided by the total number of pieces for the 192 customer locations, the 106 customer locations, the 25 customer locations and the 16 customer locations. Show all calculations.
- b. Please provide the information requested in part a. of this interrogatory for "presort mailers" of Priority Mail.

RESPONSE:

- a. Total revenue divided by the total number of pieces (average realized revenue per piece) is $\$14,308,139/4,822,125 = \2.97 for the 192 largest customer locations; $\$11,974,603/4,142,770 = \2.89 for the 106 customer locations among the 192 largest with average realized revenue per piece equal to $\$2.89$; $\$646/66 = \9.79 for the 25 smallest customer locations; and $\$95/32 = \2.97 for the 16 customer locations among the 25 smallest with average realized revenue per piece approximately equal to $\$2.89$.
- b. As stated in my response to OCA/USPS-T1-16(b), I have not been provided with a definition of "presort mailer." However, I will assume what is meant is "customer," rather than "customer location" as defined in my response to OCA/USPS-T1-16(a). Total revenue divided by the total number of pieces (average realized revenue per piece) is $\$14,308,160/4,822,128 = \2.97 for the 183 largest presort mailers; $\$11,964,589/4,139,305 = \2.89 for the 102 presort mailers among the 183 largest with average realized revenue per piece equal to $\$2.89$; $\$625/63 = \9.92 for the 23 smallest presort mailers; and $\$95/32 = \2.97 for the 16 presort mailers among the 23 smallest with average realized revenue per piece approximately equal to $\$2.89$.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-18. Please refer to your response to OCA/USPS-T1-12(a). Please confirm that the value of the proposed presort discount relative to the Priority Mail rate is greater in percentage terms for lighter weight pieces than for heavier weight pieces at each presort level. If you do not confirm, please explain.

RESPONSE:

Confirmed. This is what I meant when I said in my response to OCA/USPS-T1-12(a): "[M]ailers of lighter-weight pieces will realize greater percentage rate decreases from the proposed presort discounts because their base rates are lower."

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-19. Please refer to your response to OCA/USPS-T1-11(a), where you refer to the "Special Priority Report."

- a. Please provide the weight distribution data for presorted Priority Mail found in the "Special Priority Report" for GFY2000, and the test year volume of Priority Mail, after rates, from Docket No. R2000-1.
- b. Assume a mailer presents 1,000 pieces of presorted Priority Mail. Assume further that 800 pieces weigh one pound or less, while the remaining 200 pieces weigh more than one pound but less than or equal to two pounds. Please confirm that the 200 pieces will not qualify for any presort discount. If you do not confirm, please explain.

RESPONSE:

- a. The "Special Priority Report" for GFY 2000 is attached. There are no data for presorted Priority Mail because there was no Priority Mail presort classification in GFY 2000.

Priority Mail test year volume, after rates, is 1,243,245,000 pieces. Please see PRC Op. R2000-1, Appendix G, at 4.

- b. Not confirmed. If presented together, the 800 and 200 pieces are not considered separate mailings. Since the total mailing size, 1,000 pieces, exceeds the 300-piece minimum, all 1,000 pieces qualify for the proposed Priority Mail presort discount.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

OCA/USPS-T1-21. Please refer to your testimony at page 3, lines 7-9, where it states the "Postal Service will aim to extend the presort discount to roughly 10 mailers . . ."

- a. Is the Postal Service seeking "roughly 10 mailers", or roughly 10 "customer locations," to participate in the experiment? Please explain.
- b. If up to 20 mailers request to participate in the experiment, will all 20 mailers be permitted to participate? If your answer is no, what criteria will the Postal Service use to select the "roughly 10 mailers" to participate in the experiment.
- c. If 20 or more mailers request to participate in the experiment, what criteria will the Postal Service use to select the "roughly 10 mailers" to participate in the experiment.
- d. Is ADP guaranteed to be one of the "roughly 10 mailers" that participate in the experiment?
- e. What circumstances or factors, if any, can you identify that would preclude ADP from participating in the experiment?

RESPONSE:

- a. The Postal Service is seeking roughly 10 customer locations to participate in the first year to year-and-a-half ("Phase I") of the experiment. This could comprise, for example, 10 customers, each with one location; or 9 customers, 8 with one location and 1 with two locations. The "10" is only an approximate target, so slightly more or slightly fewer than 10 customer locations may be included in the first phase of the experiment.
- b. No, 20 mailers would exceed the target for Phase I of the experiment. The criteria used to select roughly 10 mailers from among these applicants were stated at page 4, lines 5-15 of my testimony.
- c. The criteria used to select roughly 10 mailers from among these applicants were stated at page 4, lines 5-15 of my testimony.
- d. No customers are guaranteed participation in the proposed experiment.
- e. ADP could be precluded from participating in the proposed experiment if they do not meet the criteria stated at page 4, lines 5-15 of my testimony. Participation is also a

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

Response to OCA/USPS-T1-21e (Cont.)

matter of customer choice. So, ADP could also be precluded from the experiment if they choose not to participate (though, to be sure, strong interest is indicated in Witness Kalenka's testimony).

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-22. Please refer to your testimony at page 11, lines 4-11, and Attachment A, line (9), "Existing Volume That Will Take the Discount," 1.5%.

- a. Please confirm you are assuming that 10 "Participating Mailers" will cause an increase of 100 percent in the proportion (i.e., 1.5 percent vs. 0.75 percent) of Priority Mail pieces that take the proposed Priority Mail presort discount, if recommended.
- b. Please explain why you assume that 10 "Participating Mailers" from the entire universe of potential mailers of Priority Mail will be able to increase by 100 percent the proportion of Priority Mail pieces that take the proposed discount.

RESPONSE:

- a. Confirmed.
- b. As I explained in footnote 5 on page 11 of my testimony, participation in the Priority Mail presort discount eliminated in Docket No. R97-1 was highly concentrated in just a handful of mailers. It is therefore my judgment that, compared to the old discount, relative participation in the proposed new discount can double from just 10 mailers.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-23. Please refer to your response to OCA/USPS-T1-13(d), and the Attachment thereto, and the attachment to this interrogatory, identified as "New 1lb Volume: OCA Revised Att A" (herein "OCA Attachment"). The shaded cells in the OCA Attachment are different from the attachment to your response to OCA/USPS-T1-13(d). Please confirm that the shaded cells in the OCA Attachment are correct. If you do not confirm, please explain. (Calculations are documented on page two of the OCA Attachment. An Excel version of the OCA Attachment will be made available for posting on the Commission's website.)

RESPONSE:

Confirmed, the OCA calculations are correct. One of the reasons the OCA Attachment is different than my attachment to OCA/USPS-T1-13(d) is that the OCA Attachment, unlike my attachment to OCA/USPS-T1-13(d), deviates from the exact format used in USPS-T-1, Attachment A. For example, line 2 in USPS-T-1, Attachment A is "Not Discounted (Existing Volume Only)." In the OCA Attachment, line 2 is limited to one-pound volume: "Not Discounted (Existing 1lb Volume Only)."

The other factor resulting in differences between my attachment to OCA/USPS-T1-13(d) and the OCA Attachment is that, as acknowledged in OCA/USPS-T1-13(d), I was absent knowledge of average attributable cost per piece for one-pound pieces. For purposes of demonstration, I used a crude algorithm to estimate this as \$2.163. The OCA Attachment includes data documenting this figure as actually \$2.142. The difference between these cost figures accounts for the difference between the change in Test Year total Priority Mail attributable cost, before vs. after the experiment: -\$4,720,000 in my attachment to OCA/USPS-T1-13(d), compared to -\$4,712,000 in the OCA attachment. Note that volume and revenue impacts are the same in the two models, however.

Proposed Priority Mail Presort Discount: Estimated Volume and Financial Impacts

	(a) Priority Mail Volume (000)	(b) Priority Mail Revenue Total (\$000)	(c) Priority Mail Revenue Per Piece	(d) Priority Mail Attributable Cost Total (\$000)	(e) Priority Mail Attributable Cost Per Piece	(f) Priority Mail Contribution To Institutional Cost Total (\$000)	(g) Priority Mail Contribution To Institutional Cost Per Piece	(h) Priority Mail Cost Coverage
(1) Test Year, Before Experiment (Total)	1,243,245	\$ 5,680,265	\$ 4.569	\$ 3,509,283	\$ 2.823	\$ 2,170,982	\$ 1.746	161.9%
(1.1) Priority Mail (1lb Volume)	360,718	\$ 1,262,514	\$ 3.500	\$ 772,662	\$ 2.142	\$ 489,852	\$ 1.356	163.4%
(1.2) Priority Mail (All Other Volume)	882,527	\$ 4,417,751	\$ 5.006	\$ 2,736,621	\$ 3.101	\$ 1,681,130	\$ 1.905	161.4%
Test Year, After Experiment								
From Volume								
(2) Not Discounted (Existing 1lb Volume Only)	382,069	\$ 1,372,244	\$ 3.590	\$ 732,116	\$ 1.916	\$ 462,133	\$ 1.209	163.2%
(3) Discounted - (Existing 1lb Volume)	18,649	\$ 61,976	\$ 3.323	\$ 34,513	\$ 1.851	\$ 21,463	\$ 1.148	178.6%
(4) Discounted - (New 1lb Volume)	385	\$ 1,281	\$ 3.323	\$ 171	\$ 0.444	\$ 55	\$ 0.142	178.3%
(5) Total	361,103	\$ 1,260,500	\$ 3.491	\$ 767,143	\$ 2.125	\$ 473,658	\$ 1.313	161.1%
(6) From Presort Fee	NA	\$1	NA	\$0	NA	\$1	NA	
(7) Subtotal	361,103	\$ 1,260,502	\$ 3.491	\$ 767,143	\$ 2.125	\$ 473,658	\$ 1.313	161.1%
(7.1) Total	1,243,630	\$ 5,678,253	\$ 4.566	\$ 3,504,563	\$ 2.818	\$ 2,173,688	\$ 1.748	162.0%
(8) Change in Test Year, After vs. Before Experiment	385	\$ (2,012)	(\$0.003)	\$ (1,720)	(\$0.005)	\$ (2,102)	\$0.002	0.2%
Inputs:								
(9) Existing Volume That Will Take the Discount	1.5%							
(10) Price Elasticity of Demand	-0.819							
Per-Piece Cost Avoidances								
(11) ADC	\$ 0.193							
(12) 3-Digit	\$ 0.261							
(13) 5-Digit	\$ 0.420	\$0.2913 Average						
Presort Discounts (Per Piece)								
(14) ADC	\$ 0.12							
(15) 3-Digit	\$ 0.16							
(16) 5-Digit	\$ 0.25	\$0.1767 Average						
(17) Annual Presort Fee	\$125							
(18) Number of Participating Mailers	10							

Attachment to OCA/USPS-T1-23

New 1lb Volume

OCA Revised Att A

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Notes For Calculations

1a, 1b, 1d, 1f: See Docket No. R2000-1, Appendix G, Schedule 1

 $1c = 1b/1a$ $1e = 1d/1a$ $1g = 1f/1a$ $1h = 1b/1d$

1.1a: See Docket No. R2000-1, PRC-LR-3, File: "LR13Pri.xls" Sheet: "Volumes."

1.1b: See Docket No. R2000-1, PRC-LR-3, File: "LR13Pri.xls" Sheet: "Rates."

 $1.1c = 1.1b/1.1a$

1.1d: See Sheet: "Costs"

 $1.1e = 1.1d/1.1a$ $1.1f = 1.1b - 1.1d$ $1.1g = 1.1c - 1.1e$ $1.1h = 1.1b/1.1d$ $1.2a = 1a - 1.1a$ $1.2b = 1b - 1.1b$ $1.2c = 1.2b/1.2a$ $1.2d = 1d - 1.1d$ $1.2e = 1.2d/1.2a$ $1.2f = 1f - 1.1f$ $1.2g = 1.2c - 1.2e$ $1.2h = 1.2b/1.2d$ $2a = 1.1a - 3a$ $2b = 2a \times 1.1c$ $2c = 2b/2a$ $2d = 2a \times 1.1e$ $2e = 2d/2a$ $2f = 2b - 2d$ $2g = 2c - 2e$ $2h = 2b/2d$ $3a = 1a \times 9a$ $3b = 3a \times (1.1c - ((14a + 15a + 16a)/3))$ $3c = 3b/3a$ $3d = 3a \times (1.1e - ((11a + 12a + 13a)/3))$ $3e = 3d/3a$ $3f = 3b - 3d$ $3g = 3c - 3e$ $3h = 3b/3d$

Attachment to OCA/USPS-T1-23

New 11b Volume

OCA Revised Att A

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Notes For Calculations
(Continued)

$$4a = 3a \times (((14a + 15a + 16a)/3)/1.1c)/2 \times 10a$$

$$4b = 4a \times (1.1c - ((14a + 15a + 16a)/3))$$

$$4c = 4b/4a$$

$$4d = 4a \times (1.1e - ((11a + 12a + 13a)/3))$$

$$4e = 4d/4a$$

$$4f = 4b - 4d$$

$$4g = 4c - 4e$$

$$4h = 4b/4d$$

$$5a, 5b = \text{Row 2} + \text{Row 3} + \text{Row 4}$$

$$5c = 5b/5a$$

$$5d = \text{Row 2} + \text{Row 3} + \text{Row 4}$$

$$5e = 5d/5a$$

$$5f = \text{Row 2} + \text{Row 3} + \text{Row 4}$$

$$5g = 5c - 5e$$

$$5h = 5b/5d$$

$$6b = 17a \times 18a$$

$$6f = 6b - 6d$$

$$7a, 7b = \text{Row 5} + \text{Row 6}$$

$$7c = 7b/7a$$

$$7d = \text{Row 5} + \text{Row 6}$$

$$7e = 7d/7a$$

$$7f = \text{Row 5} + \text{Row 6}$$

$$7g = 7c - 7e$$

$$7h = 7b/7d$$

$$7.1a, 7.1b = \text{Row 1.2} + \text{Row 7}$$

$$7.1c = 7.1b/7.1a$$

$$7.1d = \text{Row 1.2} + \text{Row 7}$$

$$7.1e = 7.1d/7.1a$$

$$7.1f = \text{Row 1.2} + \text{Row 7}$$

$$7.1g = 7.1c - 7.1e$$

$$7.1h = 7.1b/7.1d$$

$$8 = \text{Row 7.1} - \text{Row 1}$$

9a: See USPS-T-1, Section II.E., at 11.

10a: See Docket No. R2000-1, USPS-T-8 at 21.

11a, 12a, 13a: See USPS-T-2, Section V., at 7.

14a, 15a, 16a: See USPS-T-1, Section II.A., at 2.

17a: See USPS-T-1, Section II.E., at 13.

18a: See UPSS-T-1, Section II.B., at 3.

Attachment to OCA/USPS-T1-23

New 1B Volume

OCA Revised All A

Page 4 of 8

TV Volume distributed based on BY billing determinants

Test Year Before Rates Volume

	77%	79%	79%	79%	77%	78%	
	23%	21%	21%	21%	23%	22%	
Weight to Lbs	Zone						Total
Flat Rate<1	1,2 & 3	4	5	6	7	8	
Flat Rate>1	41,465,982	15,149,486	16,611,615	10,474,627	6,830,476	12,855,860	103,418,072
1	12,260,910	4,020,141	4,446,974	2,838,226	2,000,800	3,864,316	29,231,368
2	171,813,533	52,802,132	62,019,436	36,852,007	24,838,637	45,714,074	363,840,819
3	213,546,466	69,185,403	76,248,676	42,875,164	29,486,861	56,429,042	487,751,413
4	59,887,274	25,400,281	28,480,489	15,848,367	12,002,850	22,708,478	164,107,717
5	24,310,863	10,601,220	12,634,110	7,272,620	5,492,845	10,534,298	71,145,867
6	10,799,839	4,982,115	7,030,893	4,024,856	2,710,183	5,978,396	35,524,251
7	6,264,089	2,913,288	4,002,417	2,205,120	1,722,005	3,251,067	20,357,866
8	3,632,586	1,822,551	2,639,309	1,474,766	1,049,979	2,286,415	13,105,608
9	2,461,931	1,088,726	1,844,478	1,131,573	853,271	1,899,465	8,059,445
10	1,549,987	669,216	1,273,416	787,502	488,899	1,183,062	6,131,872
11	1,120,863	577,966	893,142	553,814	395,181	862,756	4,433,721
12	999,379	408,802	628,793	424,848	301,069	745,859	3,506,440
13	732,635	313,557	469,207	300,614	223,064	516,828	2,655,904
14	448,118	298,057	391,974	229,441	208,318	453,406	2,029,374
15	370,646	205,852	285,872	213,846	181,295	358,815	1,596,125
16	324,641	183,110	255,459	191,344	125,851	296,595	1,396,810
17	297,774	82,482	201,862	86,133	63,105	300,893	1,051,879
18	201,489	102,581	189,016	82,655	72,172	202,916	850,810
19	140,384	82,080	170,685	85,480	76,806	172,366	727,610
20	131,553	86,775	66,708	58,524	76,346	155,787	575,703
21	133,961	72,828	109,442	84,331	82,020	117,506	590,187
22	126,397	116,815	39,739	41,672	48,996	94,171	467,789
23	106,364	45,045	71,052	46,391	30,603	107,933	407,388
24	61,787	63,489	31,229	55,390	30,427	91,975	334,298
25	75,402	36,277	80,722	33,522	26,334	90,016	342,273
26	63,061	32,210	42,268	25,658	23,205	69,007	255,489
27	58,990	45,076	34,647	15,538	13,463	41,028	208,719
28	47,433	13,035	26,362	18,938	16,920	35,244	157,933
29	27,033	16,396	13,538	38,181	14,418	58,347	167,916
30	30,984	13,829	17,905	10,341	20,243	35,339	128,642
31	31,666	10,291	41,660	10,404	23,715	23,222	140,958
32	36,439	13,254	10,639	8,285	8,198	27,645	108,480
33	21,204	16,251	7,908	21,718	8,318	37,323	112,723
34	27,902	16,173	4,672	15,238	9,985	31,691	105,642
35	20,175	3,877	5,907	13,788	11,605	20,881	78,033
36	30,328	16,803	8,495	4,663	6,110	31,233	95,632
37	26,429	3,069	12,667	10,362	6,845	18,936	76,299
38	9,255	11,794	3,841	4,206	8,936	6,785	44,617
39	11,232	5,513	8,045	15,606	53,285	16,700	108,380
40	5,875	3,183	6,068	5,052	3,285	21,205	44,669
41	10,651	1,890	2,955	2,627	3,803	14,920	38,846
42	3,736	7,525	7,321	3,789	2,001	15,362	39,734
43	7,646	3,074	1,400	2,896	3,025	8,115	26,156
44	6,091	5,667	4,425	1,184	3,197	17,049	37,814
45	6,220	3,035	1,531	1,015	4,649	12,621	29,072
46	1,231	383	10,719	1,289	2,313	33,424	49,258
47	2,002	5,593	1,450	368	2,514	15,362	27,308
48	1,807	825	2,453	1,593	3,883	9,129	19,491
49	1,336	1,425	9,212	458	-	3,283	15,714
50	2,243	599	8,631	3,431	837	2,952	18,493
51	2,233	4,826	288	2,077	1,886	5,234	16,545
52	2,227	771	885	1,546	1,531	2,111	9,073
53	5,564	670	9,658	1,146	1,803	5,151	23,981
54	2,257	1,364	615	3,517	567	2,082	10,402
55	3,389	255	956	831	447	4,934	10,812
56	2,529	285	508	363	159	8,370	10,304
57	1,446	2,742	351	276	507	1,550	6,872
58	5,875	962	299	377	1,904	1,193	10,609
59	1,273	850	-	-	334	984	3,542
60	1,024	285	3,556	1,185	386	3,705	10,141
61	1,784	144	275	2,369	1,066	77	5,695
62	587	294	7,257	-	3,463	679	12,280
63	1,087	298	270	246	-	175	2,074
64	44	1,617	267	-	1,567	701	4,196
65	339	278	301	-	247	433	1,597
66	107	-	-	306	522	-	835
67	97	287	267	-	247	299	1,196
68	1,013	-	-	257	268	482	2,019
69	34	-	-	-	292	48	374
70	29	-	-	-	515	436	980
Total	553,620,568	191,749,044	221,920,945	128,281,778	89,800,811	171,541,231	1,356,714,577

Source: Docket No. R2000-1, PRC-LR-13, File: "LR13PrLds" Sheet: "Volume"

Attachment to OCA/USPS-T1-23

New 1lb Volume

OCA Revised Att A

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Priority Mail

Test Year Before Rates Cost per Piece

Per Piece 1.788245428

Per Pound 0.262895 0.431262389 0.442982317 0.537620015 0.723381815 0.997255936

Weight to: Lbs	Zone					
	1, 2 & 3	4	5	6	7	8
Flat Rate	2.0178	2.1851	2.1753	2.2580	2.4203	2.8598
1	1.9762	2.0888	2.1052	2.1728	2.3058	2.5018
2	2.1851	2.4089	2.4237	2.5595	2.8259	3.2188 \$ 4.25
3	2.5763	3.0820	3.1172	3.4011	3.9584	4.7800 \$ 1.56
4	2.8390	3.5133	3.5802	3.9387	4.6818	5.7773 \$ 1.00
5	3.1017	3.9448	4.0032	4.4783	5.4052	6.7745 \$ 1.00
6	3.3844	4.3758	4.4461	5.0140	6.1285	7.7718 \$ 4.68
7	3.6271	4.8071	4.8891	5.5516	6.8519	8.7800 \$ 1.55
8	3.8898	5.2383	5.3321	6.0882	7.5753	9.7663
9	4.1525	5.6996	5.7751	6.6268	8.2987	10.7635
10	4.4152	6.1009	6.2181	7.1844	9.0221	11.7808
11	4.6779	6.5321	6.6811	7.7021	9.7454	12.7581
12	4.9406	6.9534	7.1040	8.2387	10.4888	13.7553
13	5.2033	7.3947	7.5470	8.7773	11.1822	14.7526
14	5.4660	7.8259	7.9800	9.3149	11.9156	15.7498
15	5.7287	8.2572	8.4330	9.8525	12.6390	16.7471
16	5.9914	8.6884	8.8780	10.3902	13.3624	17.7443
17	6.2541	9.1197	9.3189	10.9278	14.0857	18.7416
18	6.5168	9.5510	9.7619	11.4654	14.8091	19.7389
19	6.7795	9.9822	10.2049	12.0030	15.5325	20.7361
20	7.0421	10.4135	10.6479	12.5406	16.2559	21.7334
21	7.3048	10.8448	11.0808	13.0783	16.9793	22.7308
22	7.5675	11.2760	11.5239	13.6159	17.7026	23.7279
23	7.8302	11.7073	11.9768	14.1535	18.4260	24.7251
24	8.0929	12.1385	12.4198	14.6911	19.1494	25.7224
25	8.3556	12.5698	12.8628	15.2287	19.8728	26.7196
26	8.6183	13.0011	13.3058	15.7664	20.5962	27.7169
27	8.8810	13.4323	13.7488	16.3040	21.3195	28.7142
28	9.1437	13.8636	14.1918	16.8416	22.0429	29.7114
29	9.4064	14.2949	14.6347	17.3792	22.7663	30.7087
30	9.6691	14.7261	15.0777	17.9168	23.4897	31.7059
31	9.9318	15.1574	15.5207	18.4543	24.2131	32.7032
32	10.1945	15.5886	15.9637	18.9921	24.9365	33.7004
33	10.4572	16.0199	16.4067	19.5297	25.6598	34.6977
34	10.7199	16.4512	16.8496	20.0673	26.3832	35.6949
35	10.9826	16.8824	17.2928	20.6049	27.1066	36.6922
36	11.2453	17.3137	17.7356	21.1426	27.8300	37.6895
37	11.5080	17.7450	18.1786	21.6802	28.5534	38.6867
38	11.7707	18.1762	18.6218	22.2178	29.2767	39.6840
39	12.0334	18.6075	19.0646	22.7554	30.0001	40.6812
40	12.2960	19.0387	19.5075	23.2930	30.7235	41.6785
41	12.5587	19.4700	19.9505	23.8307	31.4469	42.6757
42	12.8214	19.9013	20.3935	24.3683	32.1703	43.6730
43	13.0841	20.3325	20.8365	24.9059	32.8937	44.6703
44	13.3468	20.7638	21.2795	25.4435	33.6170	45.6675
45	13.6095	21.1951	21.7224	25.9811	34.3404	46.6648
46	13.8722	21.6263	22.1654	26.5188	35.0638	47.6620
47	14.1349	22.0576	22.6084	27.0564	35.7872	48.6593
48	14.3976	22.4888	23.0514	27.5940	36.5106	49.6565
49	14.6603	22.9201	23.4944	28.1316	37.2339	50.6538
50	14.9230	23.3514	23.9374	28.6692	37.9573	51.6510
51	15.1857	23.7826	24.3803	29.2069	38.6807	52.6483
52	15.4484	24.2139	24.8233	29.7445	39.4041	53.6456
53	15.7111	24.6452	25.2663	30.2821	40.1275	54.6428
54	15.9738	25.0764	25.7093	30.8197	40.8509	55.6401
55	16.2365	25.5077	26.1523	31.3573	41.5742	56.6373
56	16.4992	25.9389	26.5953	31.8950	42.2976	57.6346
57	16.7619	26.3702	27.0382	32.4326	43.0210	58.6318
58	17.0246	26.8015	27.4812	32.9702	43.7444	59.6291
59	17.2873	27.2327	27.9242	33.5078	44.4678	60.6263
60	17.5499	27.6640	28.3672	34.0454	45.1911	61.6236
61	17.8126	28.0953	28.8102	34.5831	45.9145	62.6208
62	18.0753	28.5265	29.2531	35.1207	46.6379	63.6181
63	18.3380	28.9578	29.6961	35.6583	47.3613	64.6154
64	18.6007	29.3890	30.1391	36.1959	48.0847	65.6126
65	18.8634	29.8203	30.5821	36.7335	48.8081	66.6099
66	19.1261	30.2516	31.0251	37.2712	49.5314	67.6071
67	19.3888	30.6828	31.4681	37.8088	50.2548	68.6044
68	19.6515	31.1141	31.9110	38.3464	50.9782	69.6016
69	19.9142	31.5454	32.3540	38.8840	51.7016	70.5989
70	20.1769	31.9766	32.7970	39.4216	52.4250	71.5962

Note: Includes contingency but no markup

Source: Docket No. R2000-1, PRC-LR-13, File: "LR13PLds" Sheet: "Rates"

Attachment to OCAUSPS-T1-23
New 1lb Volume
OCA Revised Alt A
Page 6 of 8

Priority Mail
Test Year Before Rates Costs
by Weight and Zone

Weight to:	Zone						
Lbs	1, 2 & 3	4	5	6	7	8	TOTAL
Flat Rate	108,480,008	41,503,235	45,808,567	30,080,142	21,374,205	43,536,709	281,151,867
1	339,541,491	110,717,721	130,565,088	79,842,895	66,815,857	114,380,630	831,852,661
2	462,344,852	166,473,186	184,803,687	109,736,983	83,327,112	181,633,476	1,186,319,077
3	153,774,140	78,284,432	86,716,820	53,801,988	47,511,984	108,546,818	530,736,142
4	69,019,157	37,245,215	40,047,880	28,844,855	25,718,247	60,856,478	287,532,643
5	33,486,081	19,652,239	20,145,729	16,016,844	14,648,847	40,467,241	154,448,781
6	21,074,931	12,748,016	17,795,304	11,056,398	10,553,599	25,286,580	98,484,586
7	13,175,790	8,781,154	13,881,728	8,187,288	7,194,366	20,049,657	71,249,983
8	9,578,434	5,598,357	8,834,950	6,890,381	6,463,784	18,587,472	54,981,378
9	6,436,323	4,028,113	7,354,084	5,086,102	4,055,474	12,733,947	40,504,044
10	4,948,830	3,528,062	5,553,816	3,967,771	3,585,349	10,498,525	32,061,163
11	4,674,984	2,671,001	4,175,101	3,270,666	2,834,050	9,513,180	27,238,962
12	3,619,844	2,183,420	3,333,281	2,476,965	3,382,100	7,108,129	22,104,519
13	2,331,684	2,204,027	2,858,233	2,013,872	2,331,534	6,880,797	18,529,147
14	2,025,940	1,810,977	2,284,115	1,991,964	1,821,821	5,648,128	15,463,048
15	1,859,759	1,594,548	2,238,607	1,885,227	1,586,231	4,987,099	14,133,472
16	1,784,072	716,643	1,790,208	894,941	1,110,480	5,335,599	11,831,942
17	1,259,998	935,510	1,781,432	903,237	1,018,801	3,802,967	9,679,746
18	814,845	783,939	1,666,310	980,067	1,134,484	3,402,314	8,881,839
19	891,857	866,212	680,748	702,464	1,185,848	3,230,625	7,557,753
20	943,373	759,436	1,185,328	806,749	1,498,858	2,553,800	7,724,544
21	823,309	1,266,826	440,738	544,894	831,915	2,140,573	6,148,354
22	804,917	507,933	819,499	631,861	541,747	2,561,011	5,866,768
23	483,803	743,284	374,024	783,960	580,843	2,274,089	5,219,802
24	810,224	440,351	1,002,555	492,469	504,281	2,315,429	5,365,310
25	528,913	404,872	543,840	390,736	462,350	1,843,855	4,172,667
26	508,192	588,031	461,005	244,982	277,295	1,137,173	3,214,679
27	421,254	175,086	362,441	308,770	360,730	1,011,998	2,640,289
28	247,186	255,057	182,129	809,350	317,819	1,733,583	3,355,125
29	291,450	197,686	262,030	179,724	480,862	1,085,228	2,478,980
30	306,180	151,543	628,140	186,409	557,062	736,262	2,565,596
31	381,770	200,896	185,123	152,900	198,502	904,076	2,003,267
32	216,167	253,337	128,241	412,472	207,410	1,257,816	2,473,443
33	291,777	259,093	78,859	297,598	255,897	1,099,812	2,280,435
34	216,279	80,488	99,530	276,879	308,183	748,363	1,704,521
35	333,074	283,681	112,312	96,076	185,826	1,146,019	2,136,788
36	297,201	52,857	224,852	218,086	190,510	638,326	1,822,732
37	108,510	209,278	86,180	91,180	255,186	262,484	990,796
38	132,209	100,197	112,588	346,720	1,559,418	682,727	2,813,836
39	70,700	59,225	116,066	114,905	97,849	662,659	1,321,584
40	130,989	35,974	57,843	81,182	116,853	621,853	1,024,474
41	46,914	146,507	148,081	90,302	62,921	855,806	1,148,311
42	98,027	61,173	28,552	70,568	97,329	354,398	710,047
43	79,700	115,221	92,206	29,483	105,160	781,590	1,183,370
44	83,023	63,025	32,587	25,814	156,287	576,381	937,097
45	16,757	8,107	232,835	33,489	79,426	1,559,705	1,930,319
46	27,777	120,953	32,143	10,247	88,144	732,185	1,011,450
47	25,547	18,196	55,483	43,101	131,807	444,233	718,347
48	19,233	32,043	212,352	12,647	-	182,999	439,273
49	32,880	13,738	202,775	88,522	23,708	148,542	519,163
50	33,324	112,700	6,893	58,550	71,595	270,364	554,427
51	33,826	18,331	21,578	45,214	59,228	111,115	289,291
52	85,799	16,215	239,732	34,087	71,034	278,331	723,199
53	35,458	33,621	15,544	108,514	22,744	113,741	327,621
54	54,135	6,402	24,568	25,812	18,244	274,530	403,491
55	41,062	7,275	15,835	11,388	6,804	390,775	442,739
56	23,860	71,120	8,346	6,799	21,481	89,308	223,852
57	98,473	25,356	8,087	12,224	81,898	89,925	295,952
58	21,880	25,485	-	-	14,812	58,671	120,429
59	17,704	7,786	99,298	39,891	17,147	224,636	408,241
60	30,954	3,988	7,787	80,655	48,184	4,745	178,323
61	10,455	8,272	209,065	-	159,025	42,509	429,326
62	19,848	8,439	7,910	8,634	-	11,138	55,788
63	803	46,819	7,943	-	74,222	45,294	175,081
64	8,302	8,167	9,085	-	11,881	28,399	83,814
65	2,028	-	-	11,223	25,494	-	38,743
66	1,854	8,680	8,298	-	12,239	20,221	51,291
67	19,637	-	-	9,707	13,452	33,073	75,870
68	899	-	-	-	14,885	3,389	18,923
69	683	-	-	-	26,814	30,802	57,999
70	-	-	-	-	14,033	-	14,033
GRAND TOTAL							3,777,206,597

Attachment to OCA/USPS-T1-23
New 11b Volume
OCA Revised Att A
Page 7 of 8

Priority Mail
Test Year Before Rates Costs
by Weight and Zone
Percent

Weight to Lbs	Zone								TOTAL
Flat Rate	1,2 & 3	4	5	6	7	8			
1	2.871673%	1.068781%	1.212763%	0.795830%	0.385873%	1.163208%		7.708126%	
2	8.989222%	2.801200%	3.456875%	2.108513%	1.504177%	3.027889%		22.017664%	
3	12.240385%	4.497309%	4.892802%	2.208542%	1.208867%	3.408672%		31.480261%	
4	4.071107%	2.072548%	2.348741%	1.427033%	1.257860%	2.873733%		14.051022%	
5	1.827254%	0.988052%	1.218094%	0.758361%	0.680827%	1.611230%		7.062817%	
6	0.886848%	0.530285%	0.745147%	0.478883%	0.387822%	0.718833%		4.088684%	
7	0.557950%	0.337499%	0.471123%	0.282714%	0.278938%	0.688222%		2.807806%	
8	0.348824%	0.231948%	0.367513%	0.218755%	0.180488%	0.530808%		1.886314%	
9	0.253532%	0.148214%	0.280378%	0.182420%	0.171126%	0.439411%		1.455080%	
10	0.170399%	0.130470%	0.194689%	0.134852%	0.107367%	0.337120%		1.074711%	
11	0.131018%	0.093352%	0.147030%	0.105045%	0.084361%	0.277971%		0.848807%	
12	0.123768%	0.070714%	0.110534%	0.088560%	0.077678%	0.251857%		0.721140%	
13	0.098829%	0.057805%	0.088247%	0.065577%	0.089540%	0.188211%		0.585208%	
14	0.081730%	0.058351%	0.078318%	0.053318%	0.081728%	0.177110%		0.490552%	
15	0.053638%	0.042650%	0.080471%	0.052736%	0.058882%	0.148532%		0.409807%	
16	0.048238%	0.042215%	0.058288%	0.048911%	0.042048%	0.131502%		0.374178%	
17	0.047233%	0.018873%	0.047385%	0.023883%	0.026400%	0.141258%		0.307951%	
18	0.033358%	0.024767%	0.048633%	0.022613%	0.028914%	0.100882%		0.256267%	
19	0.024220%	0.020754%	0.044115%	0.0225947%	0.030034%	0.080075%		0.235148%	
20	0.023612%	0.022933%	0.018023%	0.018597%	0.031395%	0.065529%		0.200068%	
21	0.024975%	0.020108%	0.030852%	0.021358%	0.038802%	0.067611%		0.204504%	
22	0.024444%	0.035336%	0.011888%	0.014428%	0.022025%	0.068871%		0.182775%	
23	0.021310%	0.013447%	0.021898%	0.016723%	0.014343%	0.067802%		0.155320%	
24	0.012806%	0.019678%	0.009802%	0.020765%	0.014843%	0.060206%		0.138192%	
25	0.016155%	0.011658%	0.028542%	0.013038%	0.013351%	0.061300%		0.142044%	
26	0.013060%	0.010719%	0.014401%	0.010345%	0.012241%	0.048815%		0.110470%	
27	0.013454%	0.015515%	0.012205%	0.008488%	0.007341%	0.030106%		0.085107%	
28	0.011153%	0.004638%	0.008595%	0.008175%	0.009550%	0.026782%		0.089001%	
29	0.005544%	0.008753%	0.005087%	0.016132%	0.008414%	0.045896%		0.088826%	
30	0.007716%	0.005234%	0.008937%	0.004758%	0.012201%	0.028731%		0.085577%	
31	0.008108%	0.004012%	0.016630%	0.004835%	0.014748%	0.019482%		0.087823%	
32	0.010107%	0.005319%	0.004372%	0.004048%	0.005255%	0.023835%		0.053036%	
33	0.005723%	0.008707%	0.003342%	0.010820%	0.005491%	0.033300%		0.065483%	
34	0.007725%	0.008858%	0.002030%	0.007879%	0.008789%	0.029112%		0.080374%	
35	0.005728%	0.001601%	0.002835%	0.007325%	0.008106%	0.019733%		0.045126%	
36	0.008818%	0.007510%	0.002873%	0.002544%	0.004385%	0.030340%		0.058173%	
37	0.007888%	0.001402%	0.005848%	0.005800%	0.005044%	0.018899%		0.042861%	
38	0.002820%	0.005541%	0.001752%	0.002414%	0.006755%	0.008949%		0.026231%	
39	0.003500%	0.002853%	0.002880%	0.009179%	0.041285%	0.017545%		0.077143%	
40	0.001872%	0.001588%	0.003073%	0.003044%	0.002593%	0.022838%		0.034988%	
41	0.003467%	0.000952%	0.001528%	0.001620%	0.003084%	0.018483%		0.027123%	
42	0.001242%	0.003879%	0.003867%	0.002391%	0.001686%	0.017357%		0.030401%	
43	0.002595%	0.001620%	0.000754%	0.001888%	0.002577%	0.009383%		0.018798%	
44	0.002110%	0.003050%	0.002441%	0.000781%	0.002784%	0.020183%		0.031329%	
45	0.002198%	0.001889%	0.000883%	0.000883%	0.004138%	0.015258%		0.024809%	
46	0.000444%	0.000215%	0.006184%	0.000887%	0.002103%	0.041293%		0.051104%	
47	0.000735%	0.003202%	0.000851%	0.000271%	0.002334%	0.018384%		0.026778%	
48	0.000678%	0.000482%	0.001468%	0.001141%	0.003480%	0.011781%		0.018018%	
49	0.000509%	0.000848%	0.005822%	0.000335%	0.000000%	0.004315%		0.011630%	
50	0.000870%	0.000364%	0.005388%	0.002555%	0.000628%	0.003859%		0.013745%	
51	0.000882%	0.002984%	0.000182%	0.001577%	0.001895%	0.007158%		0.014678%	
52	0.000898%	0.000485%	0.000571%	0.001187%	0.001588%	0.002942%		0.007656%	
53	0.002272%	0.000429%	0.006347%	0.000802%	0.001881%	0.007316%		0.019148%	
54	0.000939%	0.000890%	0.000412%	0.002820%	0.000902%	0.003011%		0.008574%	
55	0.001433%	0.001689%	0.000168%	0.000678%	0.000483%	0.007288%		0.010882%	
56	0.001087%	0.000193%	0.000414%	0.000322%	0.000175%	0.008551%		0.011721%	
57	0.000632%	0.001883%	0.000247%	0.000233%	0.000588%	0.002384%		0.005827%	
58	0.002807%	0.000671%	0.000214%	0.000324%	0.002188%	0.001851%		0.007835%	
59	0.000574%	0.000674%	0.000000%	0.000000%	0.000387%	0.001553%		0.003188%	
60	0.000489%	0.000208%	0.002629%	0.001051%	0.000454%	0.009477%		0.010735%	
61	0.000818%	0.000108%	0.000208%	0.002135%	0.001278%	0.000128%		0.004888%	
62	0.000277%	0.000219%	0.005535%	0.000000%	0.004210%	0.001125%		0.011389%	
63	0.000520%	0.000223%	0.000208%	0.000229%	0.000000%	0.000285%		0.001478%	
64	0.000021%	0.001240%	0.000210%	0.000000%	0.001985%	0.001189%		0.004835%	
65	0.000187%	0.000218%	0.000240%	0.000000%	0.000315%	0.000752%		0.001889%	
66	0.000054%	0.000000%	0.000000%	0.000267%	0.000675%	0.000000%		0.001028%	
67	0.000049%	0.000230%	0.000220%	0.000000%	0.000324%	0.000325%		0.001358%	
68	0.000520%	0.000000%	0.000000%	0.000000%	0.000358%	0.000876%		0.002008%	
69	0.000018%	0.000000%	0.000000%	0.000000%	0.000384%	0.000088%		0.000501%	
70	0.000015%	0.000000%	0.000000%	0.000000%	0.000705%	0.000153%		0.001536%	
71	0.000000%	0.000000%	0.000000%	0.000000%	0.000372%	0.000000%		0.000372%	
GRAND TOTAL									
100.000000%									

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T1-24. Please refer to your testimony beginning on page 4 where it discusses the rationale for presort discounts for Priority Mail. Also, please review the testimony of witness Kalenka, USPS-T-3, at page 3, lines 4-6, page 6, lines 16-21, and page 7, lines 1-4. Is the Postal Service proposing presort discounts for Priority Mail as a means to retain Priority Mail volumes in the face of increasing competition? Please explain and provide any documents related to competition as a factor in proposing presort discounts for Priority Mail.

RESPONSE:

Retention of volume in the short run, e.g., during the course of the experiment, is not one of the objectives of the proposal. Accordingly, it was not part of the rationale I mentioned at USPS-T-1, pages 4-7. However, as I acknowledged at USPS-T-1, page 15, lines 18-20, the proposed experiment could result in the retention of some volume that would otherwise have gone to competitors. Retention of volume can be considered a by-product of any effort to improve a product or service.

Consistent with our mandate to provide mail classifications that meet the needs of the mailing public at reasonable rates, the Postal Service will consider, if the experiment's results warrant, requesting the establishment of permanent classifications and rates for presorted Priority Mail. If the end result is a more attractive product and, therefore, more demand from mailers, the Postal Service would regard such a development as positive. Attracting customer interest is more of a challenge in mail subclasses, such as Priority Mail, which face strong competition from the private sector. Whether this competition is "increasing," I am unable to confirm. This was witness Kalenka's characterization – not in the passages cited in this interrogatory, but at page 7, line 13 of his testimony, where the market for expedited, 2-3 day delivery service is described as "increasingly competitive."

I am unaware of the existence of any documents relating to competition as a factor in proposing presort discounts for Priority Mail.

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

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Question Number 1. Footnote 2 of USPS-T-1 states, "An outside is a mail piece that does not fit in a Priority Mail sack, weighs over 35 pounds, or contains live animals." For each of these types of outsides please provide a narrative description of how articles will be presorted, how the presorted outsides will be handled by the Postal Service, and how this handling will save the Service money.

RESPONSE:

I am informed that presorted "outsides" not fitting in Priority Mail sacks or weighing over 35 pounds will have to be prepared on pallets or in pallet boxes. A minimum weight and/or height per pallet may apply, similar to Parcel Select.

Since pallets are not accepted by air carriers, I anticipate (please see my response to OCA/USPS-T1-4) that outsides will be eligible for presorting only if the origin and destination are connected by surface transportation. Outsides can be combined on pallets with other shapes (i.e., flats or parcels) only for 5-digit separations. For ADC or 3-digit separations, outsides must be presented on separate pallets.

I am informed by Witness Levine that presorted outsides prepared on pallets (or in pallet boxes) will bypass certain postal sorting operations, depending on the level of presort. These will be the same operations bypassed by all other presorted Priority Mail. The sorting of outsides by the Postal Service is captured in the MODS operation "Manual Priority," which is included in Witness Levine's cost model. Witness Levine's cost avoidance calculations therefore include the savings that will be realized when presorted outsides bypass postal sorting operations. Consequently, the discounts proposed in my testimony account for the possibility that mailers will presort outsides.

Response to POIR No. 1, Question No. 1, Page 2 of 2

The inclusive definition of outsides given in footnote 2 of my testimony was not meant to suggest that all kinds of outsides are equal candidates for presorting. Indeed, mailers of live animals are likely in many cases to not find it practicable to amass a minimum of 300 mail pieces or 500 pounds and make the necessary separations to qualify for the proposed Priority Mail presort discount. However, live-animal mailings are certainly not precluded from the proposed presort discount. I am informed that live animals (e.g., bees, crickets, chicks) are generally mailed in parcels (as opposed to flats) and are not transported by air. Such outside mailings will therefore qualify for the proposed presort discount by meeting the presort make-up and containerization requirements (as yet, not finalized) specified for parcels. No additional presort requirements for live animals are anticipated, though such mailings will also have to meet the general requirements for perishables in DMM Section C022.2.1 and for live animals in Section C022.3.0.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

Question No. 2. On page 3 of USPS-T-1 the minimum quantity per mailing is given as 300 pieces. Does the 300 piece minimum apply to each rate category or to the overall mailing? For example, could a mailer mail 100 pieces to the 5-Digit level, 100 pieces to the 3-Digit level and 100 pieces to the ADC level? If so, is there a minimum number of pieces per rate category?

RESPONSE:

The 300-piece (or 500-pound) minimum applies to the total mailing, not to any individual rate categories in the mailing, similar to presorting in other mail classes. So, yes, a mailer could qualify for the proposed presort discount by presenting a 300-piece mailing, of which 100 pieces are presorted to the 5-digit level, 100 pieces to the 3-digit level, and 100 pieces to the ADC level.

There will be a minimum piece (and/or pound) requirement for each of the different types of containers (e.g., sacks, tubs) in which presorted mail can be prepared. (For more on the minimum piece and/or pound requirements, please see my response to POIR No. 1, Question 3.) Since at least one container will have to be presented to achieve a rate-category separation, it can be inferred that the minimum piece requirements for containers are the de facto minimum piece requirements for rate categories.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

Question No. 3. Recognizing that witness Scherer has indicated that containerization and make-up requirements have not yet been finalized (OCA/USPS-T1-4), is there a minimum number of pieces per sack or pounds per container in order to qualify for the presort discount? What factors will be evaluated to develop final minimums?

RESPONSE:

Yes, there will be minimum piece and/or pound requirements for each type of container (e.g., sacks, tubs) in which presorted mail can be prepared. These requirements will be similar to those for presorted mail in other mail classes. They will be set taking into consideration consistency with USPS handling practices, as well as container utilization and weight capacities.

United States Postal Service

**Jonathan Levine
(USPS-T-2)**

APMU/USPS-T2-1.

APMU/USPS-T2-1: At Page 4 of your testimony you state that the piggyback factors for SPBS Priority and manual Priority, as calculated in the Postal Rate Commission's Opinion and Recommended Decision, are adjusted because they are so large that they appear to be anomalous. Please state all underlying reasons that, in your opinion, cause these piggyback factors to be too large for your use.

Response:

As a preface to this response, it is useful to point out the basis for the determination that the piggyback factors for SPBS Priority and manual Priority, as calculated in the Postal Rate Commission's Opinion and Recommended Decision, are anomalous. Comparing these two piggyback factors with factors for similar operations reveals a big disparity. Specifically, comparing SPBS Priority with SPBS Other and likewise comparing manual Priority with piggyback factors for "mods 17 1Opref" or "mods 17 1POUCHING" as shown in my Attachment B, page 3, reveals large disparities.

It is my understanding that the reason for these high factors stems from the large or "anomalous" piggyback factor (of 2.87196) used by the PRC for the "Not Used" category. My Attachment B, which shows the calculation of the adjusted piggyback factors, is a useful reference for this explanation. For instance the piggyback factor for the cost pool, "mods 13 spbsPrio," of approximately 1.61043

(Response to APMU/USPS-T2-1 continued)

is obtained by taking the weighted average of the operation specific piggyback factors shown in the row marked "Piggyback Factors" at the bottom of the pages in Attachment B. These operations, which are listed at the top of each column, were the basis for calculating operation specific piggyback factors for the pre-R97-1 rate cases. Starting in R97-1, the Postal Service has taken a weighted average of these pre-R97-1 factors to get factors by cost pool.¹ The problem which arises is that while these pre-R97-1 operation specific piggyback factors cover approximately 95 percent of processing labor, there is no piggyback factor for the remaining 5% for use in computing the piggyback factors by cost pool. The category "Not Used" is this remaining 5% of processing labor.

I am informed that the PRC obtains this "anomalous" piggyback factor of 2.87196 for "Not Used", using a calculation method shown in my spreadsheet T2-ATTB.xls, sheet "misc" cells c4 to c10. I am told that this calculation is the same method as used by the USPS in its calculations. The issue, as was explained to me as follows, is that the resulting piggyback factor is inexplicably high. This piggyback factor is a small contributor to the piggyback factor for most cost pools. However, the weighting given this factor for the calculation of the factors

(Response to APMU/USPS-T2-1 continued)

for SPBS Priority and manual Priority cost pools is .2888 and .5224 respectively, as shown in the "Not Used" column of Attachment B. In other words, the SPBS Priority and manual Priority piggyback factors obtained by the PRC use a 29 and 52 percent, respectively, weighting of the 2.87196 "Not Used" piggyback factor. As indicated above, the resulting piggyback factors for SPBS Priority and manual Priority cost pools are too high. I am told that the PRC employs these factors in a very minor way in their calculations in R2000-1.

My testimony, however, places much reliance on these two piggyback factors. While the reason for the 2.87196 value has not been investigated further, we have sought to stay within the general confines of R2000-1 and have substituted the average piggyback factor for all mail processing, of 1.6057, as obtained by the PRC.² This modification brings the piggyback factors for these two operations in line with expectations.

¹ See Docket No. R2000-1, testimony of Marc A. Smith, USPS-T-21, pages 21-26.

² See Docket No. R2000-1, PRC-LR-10, spreadsheet "mppigty.xls."

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
JONATHAN D. LEVINE (NAA/USPS-T2-1-5)

NAA/USPS-T2-1: Please refer to page 6, lines 13-15 of your testimony, where you state "presortation only impacts mail processing and not other functions such as transportation and delivery." Please confirm that your cost estimates do not include an estimate of cost savings arising from preparation in carrier walk-sequence. If you cannot confirm, please explain why not.

NAA/USPS-T2-2: Please refer to the estimated cost savings presented throughout your testimony and summarized at page 7. For each level of presortation, please indicate whether your cost estimates depend upon or otherwise assume any particular volume of presorted pieces at that level.

NAA/USPS-T2-3: Please state whether the estimated cost savings presented at page 7 of your testimony are independent of the number of pieces presorted to that level. In other words, is the cost savings estimate (which you present as cents/piece) equally applicable to a presorted mailing consisting of two pieces as it is to a presorted mailing consisting of 10 pieces, 100 pieces, or 300 pieces? Please explain.

NAA/USPS-T2-4: Assume two Priority mailings, one consisting of 300 pieces presorted to a 5-digit ZIP Code, and the second consisting of 200 pieces presorted to the same 5-digit ZIP Code. Please identify any presort-related cost differences between the two mailings of which you are aware.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
JONATHAN D. LEVINE (NAA/USPS-T2-1-5)

NAA/USPS-T2-5: Assume four Priority mailings, one consisting of 300 pieces presorted to a 5-digit ZIP Code, and the other three each consisting of 100 pieces presorted to the same 5-digit ZIP Code. Please identify any presort-related cost differences between these four mailings of which you are aware.

NAA/USPS-T1-6. Assume two Priority mailings, one consisting of 300 pieces presorted to a 5-digit ZIP Code, and the second consisting of 200 pieces presorted to the same 5-digit ZIP Code. Please identify any presort-related cost differences between the two mailings of which you are aware.

RESPONSE:

Please see my response to NAA/USPS-T2-4.

NAA/USPS-T1-7. Assume two Priority mailings, one consisting of 300 pieces presorted to a 5-digit ZIP Code, and the second consisting of 100 pieces presorted to the same 5-digit ZIP Code. Please identify any presort-related cost differences between the two mailings of which you are aware.

RESPONSE:

The mail processing cost avoidance difference between the two mailings is \$84 (\$0.42 per piece x 200 pieces). There are no other mail processing cost differences I am aware of related to the size of the mailings. Please see my response to NAA/USPS-T2-3 for the effect of the size of the mailing on acceptance and mail handling costs.

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Newspaper Association of America
[Redirected from Witness Tom Scherer]

NAA/USPS-T1-8. Assume two Priority mailings, one consisting of 300 pieces presorted to a 5-digit ZIP Code, and the second consisting of 200 pieces presorted evenly (100 pieces each) between two 5-digit ZIP Codes. Please identify any presort-related cost differences between the two mailings of which you are aware.

RESPONSE:

The mail processing cost avoidance difference between the two mailings is \$42 (\$0.42 per piece x 100 pieces). There are no other mail processing cost differences I am aware of related to the size of the mailings. Please see my response to NAA/USPS-T2-3 for the effect of the size of the mailing on acceptance and mail handling costs.

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate

OCA/USPS-T2-1.

Please refer to your testimony at page 2, lines 4-6, where you indicate that your analysis does not include other functions such as transportation and delivery. Is there any reason to believe that the costs for transportation and delivery will be different for mail eligible for the proposed Priority Mail presort discount? Are there any studies on this subject? Please provide all information, including any studies.

Response:

As indicated, the scope of my analysis is the impact of the discount on mail processing costs. I did not study in detail the impact on transportation and delivery. It is reasonable to expect that transportation and delivery costs will be the same for presorted mail as for other mail. As witness Scherer states in his testimony (USPS-T-1, page 10, lines 6-11), it is possible that changes in containerization could theoretically impact the cost of transporting this mail, but it is not possible to estimate the cost impact because we do not know in advance which customers will use the product, how containerization will change, or if those changes will have a real impact on the transportation network. I am not aware of any studies on the subject.

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate

OCA/USPS-T2-3.

Please refer to Attachment A at page 8, line 23, where it states that there are two phases to the data collection plan.

- a. Please identify what data or other information will be gathered during Phase I.
- b. During Phase I, what procedures are in place to assure that the data collected are statistically accurate? What hypotheses will be tested? Please discuss.
- c. During Phase I, will a written document or other analysis be prepared assessing any preliminary problems with the proposed presort discounts and determining the feasibility of allowing more mailers into the experiment? If such a document or analysis is prepared, will the Postal Service share it with the Commission at the conclusion of Phase I?
- d. During Phase II, what procedures are in place to assure that any data collected are statistically accurate? What hypotheses will be tested? Please discuss.

Response:

- a. The information collected during Phase I will be primarily qualitative. The Postal Service will communicate with mailers participating in the experiment and plants that handle the presorted mail. Surveys (written or phone) will determine how the plants handle the mail and which operations are in fact avoided, and will determine if any new operations are created. It is anticipated that the surveys will also document any unforeseen problems with the experiment. Site visits also may be utilized. Mailer information will be collected to identify volume flows and mail characteristics that will be useful in planning Phase II of the experiment.
- b. As the information collected in Phase 1 is primarily qualitative, the Postal Service does not expect to perform any hypothesis testing or statistical

**Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate**

analysis on the results. The Postal Service expects to ensure, however, that the information collected accurately represents the mailers and sites included in the experiment. This will be possible due to the limited size of the experiment (around ten mailers). Surveys will be designed to represent all sites affected by presorted mail at origin and include a representative number of sites to determine the impact of presorted mail at destination. Sites representing the different mailflows in my cost model (USPS-T-2, page 5 line 19 through page 6 line 2) will be included in the survey.

- c. It is certainly possible that a document (or documents) assessing preliminary problems or determining the feasibility of allowing more mailers into the experiment might be created. It seems prudent to concede, at least hypothetically, that such a document could be shared with the Commission at the conclusion of Phase I. However, it seems that whether such a "sharing" takes place is a matter to be resolved between the parties and the Commission under applicable rules and procedures. The results of Phase I will primarily be used to design Phase II of the experiment and to determine the feasibility of expanding the experiment to include additional mailers. Therefore, any results will be part of the Phase II design.
- d. Because the specific nature of Phase II of the experiment has not been determined, the Postal Service has not decided what procedures will be put in place to ensure statistical accuracy. It is the Postal Service's intent to use

**Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate**

appropriate methods of statistical analysis on data collected from existing cost systems, mailing statements, potential site visits, and communications with affected parties. It is also the Postal Service's intent to include information that generally reflects the impact on all sites affected by presorted mail. The Postal Service expects to include sites representing the different mailflows in my cost model (see USPS-T-2, page 5 line 19 through page 6 line 2) and the diversity of location and mail characteristics of the mailers included in the experiment.

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate

OCA/USPS-T2-4. Please refer to Attachment A, at pages 9 and 10, regarding a proposed market research study.

- a. Please confirm that the purpose of the proposed market research study is to develop estimates of elasticities of demand for each of the proposed presort discounts. If you do not confirm, please explain.
- b. Please confirm that the proposed market research study will develop quantitative data. If you do not confirm, please explain and describe in detail the qualitative information to be developed by the proposed market research study. If you do confirm, please identify and describe in detail the types of quantitative data to be collected.

Please describe the hypotheses, if any, to be tested by the proposed market research study. Will statistically valid conclusions be drawn?

Response:

- a. It is my understanding that the purpose of the market research study is to estimate the expected amount of volume that would take advantage of the presort discount at various potential discount levels
- b. Confirmed. It is my understanding that the Postal Service intends to develop quantitative information from this study.
- c. As stated above, the purpose of the study is to estimate demand at various price points. It is the intent of the Postal Service to design and conduct the study so that the confidence in the demand estimate can be reasonably relied upon.

RESPONSE OF USPS WITNESS LEVINE TO INTERROGATORY
OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-5.

Please refer to your responses to OCA/USPS-T2-3 and T2-4, regarding the experimental data collection plan. Please confirm that during the period of the experiment, the Postal Service intends to collect the following data as part of that data collection plan: the number of Priority Mail pieces by shape (e.g., letters, flats and parcels), weight, presort level and zone entered by each mailer participating in the experiment for each postal site selected to process presorted Priority Mail.

RESPONSE:

I am informed that the Postal Service intends to collect data of the nature reflected on the attached sample data collection forms, which will be submitted when mail is presented for acceptance. Essential data elements from each form will be electronically entered into a database for analysis. The Postal Service intends to use the data from these forms, as necessary, to supplement the qualitative information obtained during the experiment.

Postage Statement — Presorted Priority Mail Permit Imprint

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Permit Holder's Name and Address, and Email Address If Any	Telephone	Name and Address of Mailing Agent (If other than permit holder)	Telephone	Name and Address of Individual or Organization for Which Mailing Is Prepared (If other than permit holder)
CAPS Cust. Ref. ID		Dun & Bradstreet No.		Dun & Bradstreet No.
Post Office of Mailing	Processing Category (DMM C050)	Mailing Date	Federal Agency Cost Code	Statement Seq. No.
Permit No.	<input type="checkbox"/> Letters <input type="checkbox"/> Flats <input type="checkbox"/> Parcels	<input type="checkbox"/> Identical weight <input type="checkbox"/> Not identical weight		Number of Containers
Separation Method: All pieces must be separated by zone when presented for acceptance unless all the pieces are in a weight category for which the rate does not vary by zone (5 pounds or less) or the postage is reported under an MMS.				Total Pieces
				Total Weight
For 5-Digit			Total From Part A (On reverse)	
For 3-Digit			Total From Part B (On reverse)	
For ADC			Total From Part C (On reverse)	
For Residual/Single Piece			Total From Part D (On reverse)	
For Special Services and Other Fees			Total From Attached Form 3540-S	
Postmaster: Report total age in AIC 237.			Total Postage Affixed (Add lines above) →	

stage Computation (DMM P013)

Mail Info.

Permit

Holder

The signature of a mailer certifies that he or she will be liable for and agrees to pay, subject to appeals prescribed by postal laws and regulations, any revenue deficiencies assessed on this mailing. (If this form is signed by an agent, the agent certifies that he or she is authorized to sign this statement, that the certification binds the agent and the mailer, and that both the mailer and the agent will be liable for and agree to pay any deficiencies.)

I hereby certify that all information furnished on this form is accurate, truthful, and complete; that the material presented qualifies for the rates of postage claimed; and that this mailing does not contain any hazardous materials prohibited by postal regulations.

I understand that anyone who furnishes false or misleading information on this form or who omits material information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including multiple damages and civil penalties).

Signature of Permit Holder or Agent (Both principal and agent are liable for any postage deficiency incurred.)

Telephone

Use Only	Weight of a Single Piece _____ pounds		Are figures at left adjusted from mailer's entries? <input type="checkbox"/> Yes <input type="checkbox"/> No	
	Total Pieces	Total Weight	If "Yes," Reason	
	Total Postage			
	I CERTIFY that this mailing has been inspected concerning: (1) eligibility for postage rate claimed; (2) proper preparation (and presort where required); (3) proper completion of postage statement; and (4) payment of annual fee (if required).			
	Verifying Employee's Signature		Verifying Employee's Name	
		Date Mailed	Contact	By (Initials)
		Time		AM PM
Round Stamp (Required)				

A. 5-Digit Presorted

	Zone	Number of Pieces	x	Rate	Total Postage Part A
A1	Unzoned (Up to 5 lbs.)				
A2	Local, 1, 2, & 3				
A3	4				
A4	5				
A5	6				
A6	7				
A7	8				
	Totals				

B. 3-Digit Presorted

	Zone	Number of Pieces	x	Rate	Total Postage Part B
B1	Unzoned (Up to 5 lbs.)				
B2	Local, 1, 2, & 3				
B3	4				
B4	5				
B5	6				
B6	7				
B7	8				
	Totals				

C. ADC Presorted

	Zone	Number of Pieces	x	Rate	Total Postage Part C
C1	Unzoned (Up to 5 lbs.)				
C2	Local, 1, 2, & 3				
C3	4				
C4	5				
C5	6				
C6	7				
C7	8				
	Totals				

D. Residual/Single Piece

	Zone	Number of Pieces	x	Rate	Total Postage Part D
D1	Unzoned (Up to 5 lbs.)				
D2	Local, 1, 2, & 3				
D3	4				
D4	5				
D5	6				
D6	7				
D7	8				
	Totals				

Postage Statement — Presorted Priority Mail

Postage Affixed

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Permit Holder's Name and Address, and Email Address If Any	Telephone	Name and Address of Mailing Agent (If other than permit holder)	Telephone	Name and Address of Individual or Organization for Which Mailing Is Prepared (If other than permit holder)	
Dun & Bradstreet No.		Dun & Bradstreet No.		Dun & Bradstreet No.	
Post Office of Mailing	Processing Category (DMM C050)	Mailing Date	Statement Seq. No.	Total Pieces	Number of Containers
Permit No.	<input type="checkbox"/> Letters <input type="checkbox"/> Flats <input type="checkbox"/> Parcels	<input type="checkbox"/> Identical weight <input type="checkbox"/> Not identical weight		Total Weight	
For 5-Digit			Total From Part A (On reverse)		
For 3-Digit			Total From Part B (On reverse)		
For ADC			Total From Part C (On reverse)		
For Residual/Single Piece			Total From Part D (On reverse)		
For Special Services and Other Fees			Total From Attached Form 3540-S		
Total Postage Affixed (Add lines above) →					

Certification

The signature of a mailer certifies that he or she will be liable for and agrees to pay, subject to appeals prescribed by postal laws and regulations, any revenue deficiencies assessed on this mailing. (If this form is signed by an agent, the agent certifies that he or she is authorized to sign this statement, that the certification binds the agent and the mailer, and that both the mailer and the agent will be liable for and agree to pay any deficiencies.)

The submission of a false, fictitious, or fraudulent statement may result in imprisonment of up to 5 years and a fine of up to \$10,000 (18 U.S.C. 1001). In addition, a civil penalty of up to \$5,000 and an additional assessment of twice the amount falsely claimed may be imposed (31 U.S.C. 3802).

I hereby certify that all information furnished on this form is accurate and truthful, that the material presented qualifies for the rates of postage claimed, and that this mailing does not contain any hazardous materials prohibited by postal regulations.

Signature of Permit Holder or Agent (Both principal and agent are liable for any postage deficiency incurred.)

Telephone

PS Use Only

Weight of a Single Piece		Are figures at left adjusted from mailer's entries? <input type="checkbox"/> Yes <input type="checkbox"/> No		Round Stamp (Required)
Total Pieces	Total Weight pounds	If "Yes," Reason		
Total Postage				
I CERTIFY that this mailing has been inspected concerning: (1) eligibility for postage rate claimed; (2) proper preparation (and presort); (3) proper completion of postage statement; and (4) payment of annual fee.				
Verifying Employee's Signature		Date Mailed Notified	Contact	By (Initials)
		Verifying Employee's Name		Time AM PM

A. 5-Digit Presorted

	Zone	Number of Pieces	x	Net Rate Affixed	Total Postage Part A
A1	Unzoned (Up to 5 lbs.)				
A2	Local, 1, 2, & 3				
A3	4				
A4	5				
A5	6				
A6	7				
A7	8				
	Totals				

B. 3-Digit Presorted

	Zone	Number of Pieces	x	Net Rate Affixed	Total Postage Part B
B1	Unzoned (Up to 5 lbs.)				
B2	Local, 1, 2, & 3				
B3	4				
B4	5				
B5	6				
B6	7				
B7	8				
	Totals				

C. ADC Presorted

	Zone	Number of Pieces	x	Net Rate Affixed	Total Postage Part C
C1	Unzoned (Up to 5 lbs.)				
C2	Local, 1, 2, & 3				
C3	4				
C4	5				
C5	6				
C6	7				
C7	8				
	Totals				

D. Residual/Single Piece

	Zone	Number of Pieces	x	Net Rate Affixed	Total Postage Part D
D1	Unzoned (Up to 5 lbs.)				
D2	Local, 1, 2, & 3				
D3	4				
D4	5				
D5	6				
D6	7				
D7	8				
	Totals				

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate

OCA/USPS-T2-6.

OCA/USPS-T2-6. Please refer to your responses to OCA/USPS-T2-5.

- a. Please confirm that the only difference between "PS Form 3600-PMRX" and "PS Form 3600 PMPX" is that the former is for "Permit Imprint" presorted Priority Mail and the latter is for "Postage Affixed" presorted Priority Mail. If you do not confirm, please explain.
- b. On Form 3600-PMRX, in the box entitled "Processing Category (DMM C050)," are three check-off boxes for "Letters," "Flats" and "Parcels." If a mailer presents a mailing consisting of some combination of letters, flats and parcels, and checks one or more boxes, how will the Postal Service determine the number of letters, flats and parcels in the mailing? Please explain.
- c. On Form 3600-PMRX, there is a box displaying two check-off boxes entitled "Identical weight" and "Not identical weight." If a mailer presents a mailing consisting of pieces that are not of identical weight, and checks the appropriate box, how will the Postal Service determine the number of pieces by weight? Please explain.
- d. On Form 3600-PMRX, at page 2, are three tables for each proposed presort level (5-digit, 3-digit, and ADC), and a fourth table entitled "Residual/Single Piece." In the context of the proposed Priority Mail presort discount, please explain the meaning of, and purpose for, the table entitled "Residual/Single Piece."
- e. On Form 3600-PMRX, at page 2, for each of the proposed presort levels (5-digit, 3-digit, and ADC), how will the Postal Service determine the weight of the pieces by zone? Please explain.

Response:

- a. Confirmed.
- b. The current statement is a draft based on current knowledge of presort requirements. As the containerization requirements are determined, I expect that the statement will be adjusted to identify different shapes, as these may have different containerization requirements. The purpose of the postage

Response of Postal Service Witness Jonathan D. Levine to
Interrogatories of the Office of the Consumer Advocate

statement, however, is to collect information for revenue purposes. If shape distinctions are not necessary, then this information may not be available on the final version of the form. If this information is determined to be necessary for the cost study in Phase 2 of the experiment, then additional data collection will be implemented to collect the information. The extent of additional data collection necessary will be determined using knowledge gained in Phase 1 of the experiment. I would expect that most mailers will, however, only present mail in one shape category.

- c. The purpose of the postage statement is to collect information related to revenue. The weight will be evident from the rate used on the second page of the form. If the mailing contains pieces of differing weights that are not reflected on this form (such as for unzoned rates), then the information will not be available from these forms. If this information is determined to be necessary for the cost study in Phase 2 of the experiment, then additional data collection will be implemented to collect the information. The extent of additional data collection necessary will be determined using knowledge gained in Phase 1 of the experiment. It may be possible to also use the PERMIT manifesting system to identify mailings of varying weight, although this will not apply to metered mail.

United States Postal Service

**Robert Kalenka
(USPS-T-3)**

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KALENKA
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T3-1.

- a. Does the Group One software possessed by ADP have the capability to arrange mailing lists in presort order for pieces mailed at Priority Mail rates? Please explain.
- b. To what extent does ADP currently use the Group One software to presort Priority Mail pieces? What depth of sort does ADP typically achieve? Please explain.

RESPONSE:

a&b.

ADP currently uses the Group One software program to arrange First-Class Mail and Standard Mail lists in presort order. As indicated in my testimony at the sentence beginning on page 4, line 19, we use the software for all of our mailings, including those which are sent Priority Mail. See my response to OCA/USPS-T3-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KALENKA
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T3-4.

Please refer to your testimony at page 7, lines 9-11, where it states, "Finally, on those occasions in the past when ADP has presorted its Priority Mail prior to presenting it to the Postal Service, ADP has noticed an improvement in the speed with which our mailings reach our customers."

- (a) On how many occasions in the past has ADP presorted its Priority Mail prior to presenting it to the Postal Service?
- (b) When was the most recent occasion that ADP presorted its Priority Mail prior to presenting it to the Postal Service?
- (c) On those occasions in the past when ADP has presorted its Priority Mail prior to presenting it to the Postal Service, did ADP utilize Group One or some other software to presort its Priority Mail? Please explain.
- (d) On those occasions in the past when ADP has presorted its Priority Mail prior to presenting it to the Postal Service, what depth of sort did ADP typically achieve? Please explain.
- (e) What prompted ADP on those occasions in the past to presort its Priority Mail prior to presenting it to the Postal Service? Please explain.
- (f) On those occasions in the past when ADP has presorted its Priority Mail prior to presenting it to the Postal Service, did ADP know in advance of presorting that it would obtain an improvement in the speed with which the mailings reached customers? Please explain.

RESPONSE:

- (a) On numerous occasions.
- (b) Last week.
- (c) Yes. Group One.
- (d) Depending on the mailing, we have achieved ADC, 3-digit, and 5-digit depth of sort.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KALENKA
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

(Response to OCA/USPS-T3-4 continued)

- (e) On a number of occasions in the past year, for instance, local postal officials have requested (to put it mildly) that we presort our larger mailings, in order to improve their ability to process and deliver such mail in a timely fashion. We have complied with their requests.
- (f) Under the circumstances described above, it certainly was our expectation that if we presorted the mailings, as requested by the Postal Service, we had a higher expectation of timely delivery than if we did not presort.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KALENKA
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T3-6.

Please refer to your testimony at page 6, lines 12-20.

- (a) According to your testimony, ADP is currently "negotiating with a competitor of the Postal Service for a guaranteed second-day delivery product." Are any of the pieces that are the subject of the negotiations currently mailed at Priority Mail rates? Please explain.
- (b) Please identify and describe with specificity any and all types of mail produced or processed by ADP for which there is a competitive service offered by an entity other than the Postal Service.

RESPONSE:

- (a) Yes.
- (b) ADP Financial Information Services processes proxy statements, annual reports, quarterly reports and other investor communications for which postal competitors exist to transmit and deliver.

RESPONSE OF USPS WITNESS KALENKA TO INTERROGATORY
OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS SCHERER)

OCA/USPS-T1-11.

Please refer to your responses to OCA/USPS-T1-2, where it states that "the majority of presort mailers . . . were exclusively mailing pieces 2 pounds and under."

...

- b. Please confirm that ADP, the only mailer with whom you have discussed the proposed Priority Mail presort discount, has a particular interest in a discount for the \$3.50 one-pound Priority Mail rate. If you do not confirm, please explain.

RESPONSE:

As a user of Priority Mail that could qualify its mail for the proposed presort discounts, ADP has an interest in applying those discounts to as much of its mail as it is practical to do so, including pieces at the one-pound weight increment.